

**PAPERWORK ACT OVERSIGHT:
INTERNAL REVENUE SERVICE FORMS
W-4 AND W-4A**

HEARING
BEFORE THE
SUBCOMMITTEE ON FEDERAL SPENDING,
BUDGET, AND ACCOUNTING
OF THE
COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ONE HUNDREDTH CONGRESS
FIRST SESSION

MARCH 6, 1987

Printed for the use of the Committee on Governmental Affairs



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1987

71-318

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

5401-38

COMMITTEE ON GOVERNMENTAL AFFAIRS

JOHN GLENN, Ohio, *Chairman*

LAWTON CHILES, Florida

SAM NUNN, Georgia

CARL LEVIN, Michigan

JIM SASSER, Tennessee

DAVID PRYOR, Arkansas

GEORGE J. MITCHELL, Maine

JEFF BINGAMAN, New Mexico

WILLIAM V. ROTH, Jr., Delaware

TED STEVENS, Alaska

WILLIAM S. COHEN, Maine

WARREN B. RUDMAN, New Hampshire

JOHN HEINZ, Pennsylvania

PAUL S. TRIBLE, Jr., Virginia

LEONARD WEISS, *Staff Director*

JO ANNE BARNHART, *Minority Staff Director*

SUBCOMMITTEE ON FEDERAL SPENDING, BUDGET, AND ACCOUNTING

LAWTON CHILES, Florida, *Chairman*

SAM NUNN, Georgia

CARL LEVIN, Michigan

JEFF BINGAMAN, New Mexico

WARREN B. RUDMAN, New Hampshire

TED STEVENS, Alaska

JOHN HEINZ, Pennsylvania

ROBERT F. HARRIS, *Staff Director*

ROBERT COAKLEY, *Deputy Staff Director*

SANTAL MANOS, *Minority Staff Director*

DAISY M. MINTER, *Chief Clerk*

CONTENTS

Opening statements:	Page
Senator Chiles	1
Senator Heinz	5

WITNESSES

FRIDAY, MARCH 6, 1987

Wendy Lee Gramm, Administrator, Office of Information and Regulatory Affairs, Office of Management and Budget.....	6
James I. Owens, Deputy Commissioner, Internal Revenue Service.....	18
Al Golato, Corporate Director of Public Affairs, H&R Block Co.	23

ALPHABETICAL LIST OF WITNESSES

Golato, Al: Testimony	23
Gramm, Wendy Lee:	
Testimony	6
Prepared statement	29
Memorandum: Public Notice Under the Paperwork Reduction Act.....	38
Latest List of Suggestions for the W-4A form.....	40
Letter to Senator Chiles, March 27, 1987	41
New Form W-4A	44
Initial Form W-4A	46
Owens, James I.:	
Testimony	18
Prepared statement	48
Booz-Allen & Hamilton report.....	53

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Letters to Senator Chiles from:	
Commissioner of Internal Revenue.....	68
National Federation of Independent Businesses.....	71
National Security Team/Administration Agenda radio address by President Reagan, March 4, 1987	73

PAPERWORK ACT OVERSIGHT: INTERNAL REVENUE SERVICE FORMS W-4 AND W-4A

FRIDAY, MARCH 6, 1987

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL SPENDING,
BUDGET, AND ACCOUNTING,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:03 a.m. in room SD-342, Dirksen Senate Office Building, Hon. Lawton Chiles, chairman of the Subcommittee, presiding.

Present: Senators Chiles, Heinz, Rudman, and Levin.

OPENING STATEMENT OF SENATOR CHILES

Senator CHILES. Good morning.

The Tax Reform Act of 1986 requires that everyone who earns any kind of income file a new W-4 form. The Internal Revenue Service estimates that 185 million people will be required to fill out the W-4 form. When you add it up, filling out the W-4 amounts to a tremendous investment of time and effort by the American people.

If you consider that time is money, you can see that the W-4 form is easily a billion-dollar concern. This is the kind of hidden paperwork tax, money and resources, for example, which are not counted when we start putting together the national budget.

I am wearing several hats this Congress as chairman of the Budget Committee, the Appropriations Subcommittee on Labor, Health and Human Services, Education and related agencies, and then this Subcommittee. This Subcommittee has jurisdiction over the Sunshine Act, the Budget and Control Act, the Inspector Generals Act, the Office of Federal Procurement Policy Act, and the Paperwork Reduction Act.

Those laws represent a big chunk of my earlier work in the Senate, and I certainly look forward to continuing to aggressively pursue the fraud, waste, abuse, and government efficiency issues for which we have responsibility.

It is appropriate that our first hearing is about a Federal form. I authored the Paperwork Reduction Act. I remember the first hearing we held eight years ago before we passed the law. When it was over, I remember thinking that half my time was spent dealing with complaints people had with unnecessary parts of government regulations and forms.

I remember well a veterinarian in Jacksonville who showed me an OSHA form that threatened him with a penalty if he did not accurately report insect bites on the worksite. He had some mangy, flea-bitten dogs that had walked in and he was genuinely concerned that an inspector would show up and claim he had not filled out the forms properly.

I also remember thinking I could consider myself a success if I could some day write on my tombstone, "Here lies Lawton Chiles; he did something about paperwork." I do not believe I can say that yet, and I hope I do not have to chisel it shortly, but it is something worth trying for.

We did pass the Paperwork Reduction Act. The idea was to create some tools so that the public could be a part of the decision-making process about what kinds of records they keep; to insist that the agencies look at choices and try to pick those choices that are least burdensome to the public; and then pinpoint accountability, make someone accountable to see to it that the agencies did their homework and that the public got a chance to participate.

For years, again, when people would complain, you would say, well, that form is the jurisdiction of another committee. I am not on that committee so I am afraid I do not have much to say about that.

What we have done now is, the form is the jurisdiction of the Paperwork Act, and that is down in one office and all of us can have something to do about that. We are going to hear from that office today; that is Ms. Gramm, the Administrator of the paperwork shop.

Under the law, that is who Congress should call up and ask for an explanation; to see who is responsible; to see whether they went through an appropriate process and to see if the public was a part of that decisionmaking process.

The Administrator's role is not so much to substitute her judgment for the experts in an agency, but it is to make sure that the public was involved and the right questions were asked.

Whatever those 185 million W-4s look like, all of them are going to have one thing in common with all of the other Federal forms that millions of people in this country have to fill out every day. They are going to have an OMB control number on the right-hand side. If that number is there, then people should feel the government has done its homework, the public got a chance to react, and there is a justification file that everyone can read.

If that number is not there, then the Paperwork Reduction Act says that the public is protected. It is a bootleg form; you do not have to fill it out and you cannot be punished for not providing the information. That OMB number is supposed to be the government's good housekeeping stamp of approval.

We are holding this hearing today because the first W-4 form has that number, that stamp and that seems strange to me. The public outcry has brought about an alternative proposal.

The first proposed form had a stamp. Yet, we now see that form pulled back and we are going back and working on another one. I thought we had better look at it. Can this form be made simpler?

My key questions are: has the public been a part of this process? And even given the time constraint that Congress has levied when

they established the new tax law, have the right choices been made?

I want to close my opening remarks by pointing out there will need to be a new W-4 for next year. We are going to be looking at a new 1040 form that huge blocks of the American public are going to be working with. We need to learn how to do the best job we can.

I recently got a letter from John Sloan, the President of the National Federation of Independent Businessmen, who thanked me for my efforts on the recent reauthorization amendments to the Paperwork Act, and he made a point worth quoting.

He wrote,

I know that trying to grapple with Federal paperwork is a thankless task, but the outcome of this struggle affects every small business. It is something they truly care about.

A nationwide survey that we conducted in 1986 reaffirmed the high priority that small business owners place on reducing Federal paperwork. Out of a cluster of 75 problems, Federal paperwork ranked as the ninth most irksome problem.

I call this to your attention because I want to encourage your continued involvement in the paperwork issue.

I expect this year will be a watershed year for paperwork-related problems. Tax reform, the new immigration law, and pension and health insurance problems will all place new paperwork requirements on small business owners. Without sensitive implementation of these regulations, you are going to hear a scream of anguish from them.

Mr. Sloan makes the right point. Clearly, Congress generates the information needs when it passes laws intended to deal with our country's problems. But we are talking about millions of real people who fill out these forms and who have to report and keep records. "Sensitive implementation" can make a difference on how people feel about their government. "Sensitive implementation" is what this hearing is all about today.

[Senator Chiles prepared statement follows:]

PREPARED STATEMENT OF SENATOR CHILES

Good morning. The Tax Reform Act of 1986 requires everybody who earns any kind of income to file a new W-4. The Internal Revenue Service estimates that 185 million people will be required to fill out a W-4 form. When you add it all up, filling out the W-4 amounts to a tremendous investment of time and effort by the American people.

If you consider that time is money, you can see the W-4 form is easily a billion dollar concern. This is kind of "hidden paperwork tax"—money and resources for example, which are not counted when we put together the national budget.

Moreover, I can not think of a single governmental request that will leave an impression with more people about what their relationship to their government is than these W-4 forms. I have questions about whether what is being proposed can be made simpler. That will be a subject matter of today's hearing.

Our witnesses will be the Administrator of the Office of Information and Regulatory Affairs, Mrs. Wendy Gramm, and the Deputy Commissioner of the IRS, Mr. James I. Owen. Commissioner Gibbs was invited but must appear before his appropriations committee.

I have also invited Mr. Al Galato, the Corporate Director of Public Affairs for H and R Block and Company to attend and comment on this morning's proceedings.

Mr. Galato worked for three former IRS Commissioners and now is in the actual business of providing a form-filling service to taxpayers. He provides a particular insight that I thought would be helpful.

Today is the first hearing of the Governmental Affairs Subcommittee on Federal Spending, Budget, and Accounting. I am wearing several hats this Congress as Chairman of the Budget Committee; the appropriations subcommittee on Health, Education, and Welfare; and this subcommittee. This Subcommittee has jurisdiction-

al interest in the Sunshine Act, the Budget and Control Act, the Inspector Generals Act, the Office of Federal Procurement Policy Act, and the Paperwork Reduction Act. Those laws represent a big chunk of the work I have done in the Senate and this Committee.

I look forward to continuing to aggressively pursue the fraud, waste, abuse, and governmental efficiency issues for which we have responsibility.

It is appropriate that our first hearing is about a federal form.

I authored the Paperwork Reduction Act.

I remember the first hearing I held eight years ago before we passed the law. When it was over, I remember thinking that half my time was spent dealing with complaints people had with the unnecessary parts of government regulations and forms.

For example, the veterinarian in Jacksonville who showed me the OSHA form that threatened him with a penalty if he did not accurately report insect bites on the worksite. He had some mangy, flea bitten dogs that walked in. And he was genuinely concerned that an inspector would show up and claim he wasn't doing it right.

I also remember thinking that I could consider myself a success if they could write on my tombstone—"Here lies Lawton Chiles, he did something about paperwork."

I had a feeling then that I would never be that lucky. But it was worth trying for. We did pass the Paperwork Reduction Act.

The idea was to: create some tools so the impacted public could be a part of the decisions government makes about what and how they keep records and report; insist the agencies look at choices and pick the least burdensome to the public; and pinpoint accountability—make someone accountable to see to it the agencies did their homework and the public got a chance to participate.

That someone for accountability is now Mrs. Gramm, the Administrator of the Paperwork Shop.

Under the law that is who is responsible to see to it that the agencies check for what is needed and what is not.

Under the law that is who is responsible to be sure the public is part of the decision making process.

The Administrator's role is not so much to substitute her judgment for the experts in an agency. It is to be sure the public was involved and the right questions were asked.

Whatever those 185 million W-4's look like, all of them are going to have one thing in common with all the other federal forms millions of people in this country fill out every day. They are going to have an OMB control number on the right side.

If the number is there, then the people should feel that government has done its homework, the public got to react, and there is a justification file that anyone can go read.

If that number isn't there then the Paperwork Reduction Act says the public is protected, it's a bootleg form, and you don't have to fill it out. You can't be punished for not providing the information.

The OMB number is supposed to be the government's stamp—the seal of approval for good housekeeping.

We are holding this hearing today because the first W-4 has that number—that stamp.

That seems strange to me.

The public outcry has brought about an alternative proposal. It is up for that stamp.

I thought we better look at it. I believe the form can be made simpler. My key questions are: Has the public been part of this? And even given the time constraint Congress established with the new tax law, has the right choice been made?

Let me close my remarks by pointing out there will need to be a new W-4 form next year. We are going to be looking at a new 1040 form later this year. Huge blocks of the American public are going to work with these forms.

Let us learn how to do the best job we can. Recently, I got a letter from John Sloan, the President of the National Federation of Independent Businessmen, who thanked me for my efforts on the recent reauthorization amendments to the Paperwork Act.

He made a point worth quoting. He wrote: "I know that trying to grapple with Federal paperwork is a thankless task, but the outcome of this struggle effects every small business. It is something they care about."

"A nation-wide survey that we conducted in 1986 reaffirmed the high priority small business owners place on reducing federal paperwork. Out of a cluster of 75 problems federal paperwork ranked as the 9th most irksome.

"I call this to your attention because I want to encourage your continued involvement in the paperwork issue. I expect that this year will be a watershed year for paperwork related problems. Tax reform, the new immigration law and pension and health insurance changes will all place new paperwork requirements on small business owners. Without sensitive implementation these requirements are going to bring a scream of anguish from them."

Mr. Sloan makes the right point.

Clearly, Congress generates the information needs when it passes laws intended to deal with our country's problems.

But we are talking about millions of real people who fill out the forms, report, and keep records. "Sensitive implementation can make a difference on how people feel about their government. "Sensitive implementation" is what this mornings' hearing will be all about.

Senator CHILES. Senator Heinz, we are delighted to have you with us today. You have long been an advocate of paperwork reduction and certainly been involved in the Tax Reform Act. I know of your long and continued interest in this subject and we are happy to have you with us today.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. Mr. Chairman, thank you. I commend and congratulate you on holding this hearing. I am very pleased to be a member of this Subcommittee.

We in the Finance Committee thought that the Tax Reform and Simplification Act might have to be renamed after having observed the W-4 form that emerged a few weeks ago. That Act, the Tax Reform Act, was supposed to simplify the tax code for millions of Americans, and so the new W-4 form—not necessarily the W-4A, by making matters vastly more complicated was most dismaying.

Simple compliance with the Paperwork Reduction Act, including the public participation that is essential if alternatives are to be found, seems to me would have saved the IRS its present embarrassment.

I worry that somehow the Paperwork Reduction Act has turned into a bureaucratic paper-shuffling operation itself, and that the original purpose—which is to guard the public, not make life easy for bureaucrats—has been lost in the shuffle.

You mentioned, Mr. Chairman, that you would like a little epitaph on your tombstone that compares favorably with insect bites. You want to be known as somebody who did in his lifetime reduce paperwork. I hope that both of us can make that contribution.

You were mentioning insect bites. I was thinking of the various insects I have known and one, in particular, that reminds me of the W-4; the tarantula, which is big, it is hairy, it makes people exceptionally nervous. If you get bitten by enough of them, you will probably get sick and could even die.

Well, we do not want our taxpayers to be nervous, we do not want them to be frightened, and we do not want the big, hairy hand of government via the W-4 or any other way jumping all over them like a tarantula.

I have got to say that I really do not understand how we could have arrived in this very forbidding, unattractive result. I do not understand how the Office of Information and Regulatory Affairs

and OMB avoided seeking public comment and a little what you might call "user-friendly" counsel.

I do not understand how the Paperwork Reduction Act, having just been reauthorized on October 30th of last year—how its spirit could have been so ignored. I do not know how, in spite of the fact that there was a layer of Treasury approval and two layers, at least, of OMB approval, such an obviously complex form could ever have gotten out the door. It has caused a 100-percent increase in paperwork, going from two to four pages.

I think we need to understand how that happened so that it does not happen again. What has happened is history, and it is my hope that from the lessons of history we will learn so that we do not have to relive it ever again.

So I might add parenthetically, Mr. Chairman, that in Washington, D.C., you seem to relive history just about every month, week or year. It seems somehow we never learn from the lessons of the past, but I do not think that that should deter us from trying.

So, thank you, and I am delighted that you have had this hearing, Mr. Chairman.

Senator CHILES. I thank you very much for your statement and for your appearance here, and I think it is pretty clear that for a long time IRS has not really felt they should have been subject to the Paperwork Reduction Act.

In fact, that battle went on for a long time as to whether they were even required to have the forms stamped. I am sure there has been tremendous political pressure that caused part of this to happen. Maybe we will find out a little more about it today.

But I think, also, that we do have a responsibility in the Congress, and perhaps we are exercising that today, to show we are concerned about this Act. We do want to see that it is implemented in the letter and the spirit of the law.

Ms. Gramm, we will call on you for your statement. Before you start, I just would like to get one thing out of the way right away, and that is is it your job under the Paperwork Reduction Act to approve or disapprove the IRS' proposed W-4 form that we see over here today?

Ms. GRAMM. Yes, it is.

Senator CHILES. It is under you. Are you prepared to approve it today?

Ms. GRAMM. Not today, sir.

Senator CHILES. Are you prepared to disapprove it today?

Ms. GRAMM. Not today.

Senator CHILES. Okay. Well, then, we will get on with your testimony, but I wanted it understood between you and me and everyone else that under the Paperwork Reduction Act, you have a ball to carry, and from what I hear you say, you are not prepared to punt or to drop that ball today.

TESTIMONY OF WENDY LEE GRAMM, ADMINISTRATOR, OFFICE OF INFORMATION AND REGULATORY AFFAIRS, OFFICE OF MANAGEMENT AND BUDGET

Ms. GRAMM. Not today, sir. We do need more time. But I also am sensitive to the needs of the IRS and the public to receive the

forms, so we are expediting our view. We also recognize that public participation, which was a major part of the original Paperwork Reduction Act, of course, and also part of the amendments just passed at the end of last session, does need to be taken into account.

I appreciate your comments. I would like to just briefly summarize what we are doing under the Paperwork Reduction Act.

Senator CHILES. Your statement¹ in full will be placed in the record.

Ms. GRAMM. I would like to go back a little bit in history to the original Paperwork Reduction Act just to reiterate and remind all of us what that original Paperwork Reduction Act is all about, and you have done that well this morning.

It is to place responsibility, to have a watch dog, basically, to ensure that the burden that the Federal government places on the public is the minimum necessary, consistent with the agency's needs.

Basically, what the Paperwork Reduction Act does is to try and minimize this burden, and also to ensure that information resources of the government are efficiently used. There is a recognition throughout that information is an economic good, and it does cost something to provide that information to the Federal government.

And very frankly, I like to think of paperwork reduction and the paperwork burden a little bit like the budget. A little bit of paperwork burden here and a little bit of paperwork burden there, and pretty soon you are inundated with red tape and burden. That was a problem that we faced in the late 1970s which resulted in your coauthorship of this Paperwork Reduction Act. Paperwork is what we have been trying to reduce in our office throughout these years.

I think that, very briefly, just at the outset I would like to lay out the process that was envisioned in the Paperwork Reduction Act and in the amendments, and then go on to the W-4 and the W-4A forms that we have under consideration today.

Senator CHILES. Fine.

Ms. GRAMM. The process envisions, first of all, that the agencies, whenever they have a form—be it some kind of reporting requirement in a regulation or a survey or a form such as this one—that they make that form available to the public when they send it over to OMB for review.

They have the obligation to inform the public of the reason why they are collecting the information, the use for the information being collected, as well as to provide the public some estimate of the amount of burden and the frequency of collection that will be required.

OMB and my office, OIRA, have the responsibility to review the form and to obtain public comment, and ultimately to approve or disapprove the form. Once we approve the form, we provide the OMB clearance number for the agencies.

The public participation aspect is very important. The amendments at the end of last year strengthened and clarified that role

¹ See p. 29.

of the public to ensure that their comments are known to not only the agency but also OMB concerning the burden that is being imposed on them.

I might say that we are in the process of writing some implementing regulations that would further clarify the role of agencies in this public participation process. You might be interested to know that we are considering, for example, requiring agencies to publish the actual form in the *Federal Register* along with a description of the reasons for the information collection.

We are considering asking the agencies to specifically state the burden on the respondent; namely, the average number of hours that they expect the respondent will have to spend in filling out the form.

That way, if someone has a question or would dispute an agency's estimation of the burden of filling out this form, he or she can make those disputes known either to the agency or to OMB.

We are also considering asking agencies to put right on the form itself an estimate of the burden, the average amount of time an individual will have to spend filling out a form, and invite those people to comment to OMB if they feel like their estimate may be different from what the agency has proposed.

Those are things that we are trying to consider in implementing some of the amendments that were passed at the end of last year.

Now, let me turn to the W-4 and the W-4A clearance process itself because I think this is a very good example of just how the paperwork clearance process can indeed be frustrated by some factors, including the immense pressure that agencies feel in getting forms out to the public in a timely fashion, especially if there is a deadline that they must face, sometimes imposed by statutes; or, if there are some requirements that are very burdensome that are required by the statute.

Indeed, those kinds of pressures can not only frustrate the process, but also reduce the ability of the public to have meaningful comment about the form itself. Let me give you some dates concerning our initial review of the W-4 form.

First of all, IRS sent a copy of that original W-4 form to our office on October 6 of 1986. As you recall, the Tax Reform Act was passed at the end of September and, indeed, was not even signed, I believe, until the end of October.

IRS was in a position of trying to have a W-4 form that had to be out by the beginning of December so employees could fill it out by the end of December. They sent over the form to us for review on October 6th.

It was sent to the *Federal Register* on October 8 and published in the *Federal Register* on October 9. We started to review it then. We raised some questions. We had concerns. Clearly, it was a long and difficult form.

But very frankly, what we heard at that time was that IRS did have to get some 360 million copies of the form out to the public by the beginning of December, and with printing delay and distribution delay time built in, they had an enormous job to do.

We, therefore, reviewed the form, but we were not able to get public comment on the form that could have totally prevented the form from going out.

We cleared the form on October 14th, and that included a long weekend. Basically, there were really only two working days' worth of time for the public to make a comment on that very complicated form.

We had to truncate our review, basically, because of the enormous pressures to get the form out. Although there were a number of questions that we raised, a lot of the complication was due to the fact that IRS was trying to make a very accurate form in response to the new tax law.

Some of the burden and some of the requirements are there because the tax law itself is quite complicated.

Senator CHILES. Well, now, time was compressed, then, but you had another problem, did you not, Ms. Gramm? The Act was up for reauthorization at that time. There was a very close question as to whether the Act was going to go down and whether it was going to be reauthorized.

I would have hoped that you would have looked at it differently had you not been under that pressure of trying to get your Act reauthorized.

Ms. GRAMM. Well, that is right. We were quite busy at that time. Our Act was reauthorized on October 30th.

Senator CHILES. October 30th?

Ms. GRAMM. That is right.

Senator CHILES. So you were in the closing days of facing extinction?

Ms. GRAMM. That is right, absolutely, at that point in time.

Senator CHILES. You were not in a very good posture or position to resist some pressure that was coming down at that time.

Ms. GRAMM. And a lot of timing pressure as well, absolutely.

Senator CHILES. All right.

Ms. GRAMM. And I might add that the Paperwork Reduction Act amendments that were passed on October 30th indeed strengthened and gave extra impetus to the—

Senator CHILES. So we had not passed the amendments that required the number of hours that it would take the public to fill out this form to be published. That was not part of the law at that time?

Ms. GRAMM. That was not part of the law at that time.

Senator CHILES. That is part of the law today?

Ms. GRAMM. It is part of the law today. The IRS, when it makes its form public, has to give an estimate of the amount of burden. That gives the public, then, a chance to dispute the estimate if they disagree with it.

Senator CHILES. It makes everybody assess how much of the public's time we are going to take in this form, and you get a chance to grade what IRS or any other agency says is the estimate, because you are both supposed to do that exercise, as I understand it.

Ms. GRAMM. Clearly, yes.

Senator CHILES. All right.

Ms. GRAMM. Let me add that we review some 3,800 information collections per year, and we do, I think, a pretty good job of it. However, what that means is that we do have to rely on the public's view, as well as our own estimates of what the burden may be.

Senator CHILES. Now we are going to get a chance to see what kind of hidden tax really is involved in these paperwork hours. Obviously, time is money, and whether you have to take this form to somebody who is going to charge you a minimum of ten dollars an hour or whether you have got to do it yourself, when we start talking about these millions of hours that are necessary, that is costing somebody some money, is it not?

Ms. GRAMM. That is right, and also on a form like the W-4A, it has traditionally been a form where the employer has provided some help to the employee, so there is another cost and burden on the employer to provide information to employees.

Senator CHILES. Another cost?

Ms. GRAMM. And all those costs do need to be taken into account.

Senator CHILES. So this is one of those off-budget items where another tax literally is involved on people?

Ms. GRAMM. Yes, clearly. I think the Paperwork Reduction Act attempts to take those factors into account, and indeed our information collection budget attempts to make that process look very similar to the budget process as well.

At any rate, what happened, then, last October was that basically, OIRA truncated its review, truncated by the time and the pressures to clear those forms so that IRS could get them out in time and into the hands of the public, and also based on, in their view, the requirements of the new law, which indeed, by its very nature, means that the form must be more burdensome.

That brings us to today where we have this new form W-4A. We received a copy of the form W-4A last Thursday evening from the IRS. They had briefed us during the interim, telling us about the proposed forms that they had under consideration and the process they were going through.

But, obviously, the forms were changing from day to day, so we did not actually receive the final form, this form, as an informal copy until late last Thursday. We did not make it public, at Commissioner Gibbs' request, so that they could make the public announcement and release it to the public on Monday.

The form was not published, but IRS placed a notice in the Federal Register which I believe appeared on this past Tuesday. We have had some discussions with IRS, some questions that we have raised ourselves, and also we have met with some outside groups about the form.

Let me say at the outset that IRS has done a tremendous job in improving this withholding certificate and the worksheets. As compared to the W-4, this form is far superior; it is a vast improvement.

Senator CHILES. So Model A is much better than W-4?

Ms. GRAMM. Model A is a significant improvement in terms of burden on—

Senator CHILES. Well, we know we started off with W-4 being a disaster and now we are looking at Model A.

Ms. GRAMM. That is right. Again, in my view—even though we know we are under a lot of time pressures—we have not had enough time for the public to respond.

On the other hand, IRS did make the form available in the press conference, not in the Federal Register, to be sure, but in the press

conference, so that it is at least more widely available. People know about the form, at least, and many people have seen copies of it.

We hope to hear further from the public, but also we have asked groups such as the Business Advisory Council on Federal Reports for comments. This is a group that was established as a result of the Federal Reports Act of 1942. Their main job is to look at paper-work burdens imposed on the public—and we have discussed with their representatives some of the burdens from their perspective as employers and small businessmen. We have gotten some of their views.

So we are in the process of review. We think the form is a vast improvement. IRS has done an awful lot in terms of working with focus groups.

Senator CHILES. Have you been under continuing pressure to go ahead and approve this form?

Ms. GRAMM. I think that it is quite obvious from all the questions that have come in from people wanting to know if when and where they can get the form that there is an awful lot of pressure to expedite our review. I think it is our responsibility to do so because there is a great agency need, basically, to get these forms out to taxpayers.

We do not want taxpayers in jeopardy by not having the right amount of withholding. These forms are their means of making sure that they withhold the correct amount of tax so they do not come at the end of the year being vastly over-withheld or under-withheld. So that pressure is certainly there.

Senator CHILES. Well, under the law, you have 60 days in which to make a decision, is that right?

Ms. GRAMM. Yes, we do.

Senator CHILES. And, literally, within that time you can send that form back and tell them to do additional things within that time?

Ms. GRAMM. Well, we have 60 days to review the form and what we can do is take the full 60 days and then return the form.

Senator CHILES. I see.

Ms. GRAMM. That 60 days is to allow for plenty of comment. Let me not frighten anybody. I do not intend to take 60 days because there is a real need to get the forms out so that taxpayers can—

Senator CHILES. I hope you do not intend to approve this form until you have had a chance to get some public comment and take a chance to look it over and see if there are other ways to simplify it.

Ms. GRAMM. That is right. What we have done is to put a lot of staff looking at the form ourselves, doing some internal review. But, again, the Paperwork Reduction Act, as Senator Heinz said—

Senator CHILES. Give us a feel, if you can, of what kinds of questions you are looking at.

Ms. GRAMM. Well, the kinds of questions that came to our mind and also were raised by some of the people that we have talked to are really aimed at making the form somewhat clearer by telling people, for example, up front where they can go and what parts of

the form they have to fill out and what parts of the form they do not have to fill out.

The front page of the form, for example, is a very simple form. There will be some 12 million taxpayers who are exempt from even filling out the first worksheet, so they can go immediately to line 6 of the withholding form.

Providing that kind of information up front could be very useful.

Senator CHILES. Does the form give them information, and tell them that now?

Ms. GRAMM. At this point, the form does not tell them up front. As you work through the form and you get to a certain line, you can see where you must stop.

Senator CHILES. Where on the form do you have to get to before you know if you are one of those 12 million people and you would not have to fill out this form to start with?

Ms. GRAMM. Well, let us see. Here is the form and, basically, for people who are totally exempt they are not told in the instructions. As you read down into the certificate itself, you find it here on line 6.

So if they went through and filled out this part of the form and they did not have to, they would have wasted the time. Now, again, there are many people who are exempt who already know they are exempt, so they may know that they would go automatically to the form.

Senator CHILES. But they would not find it out from reading this form, is what you are saying, until they got down to almost the bottom part of the front page?

Ms. GRAMM. That is right.

Senator CHILES. So if we are estimating that it takes the average person 30 minutes to fill out this form, it is going to take everybody 15 minutes before they know whether they are exempt or not?

Ms. GRAMM. Yes, if those assumptions are correct, though I think probably—

Senator CHILES. I agree, "if." I would like to see somebody fill out this form in 30 minutes—I hope I would not have to fill it out in 30 minutes

Ms. GRAMM. Actually, I think the front of the form is a lot easier than the back of the form. So our comments have been on trying to guide people to the right part of the form, clarifying the instructions, letting them know where they would stop, making sure that it is clear.

We have had a number of other suggestions, but, again, on further reflection and on discussion and talking with people, some of the suggestions have not really made sense, in our view.

Senator CHILES. Well, I notice on the front instructions there you have got a big caution in paragraph three. "If you have income from other sources (such as interest or dividends), you should consider using either the 1987 Form W-4 or making estimated tax payments," and then it says "using Form 1040-ES." It gives a call number; "check your local telephone directory for copies of the 1987 W-4 and Publication 919."

Let me ask you this: If somebody has interest less than \$500, do they have to go read 919 to determine that information?

Ms. GRAMM. No. One of the suggestions that we have made and we have discussed with IRS is that that cautionary note—there are a lot of people, particularly, say, some elderly people, that may have—

Senator CHILES. Small savings and loan accounts.

Ms. GRAMM. That is right, small amounts of other sources of income, and they would not really need to fill out the more complicated worksheets in the back. And so we have discussed the possibility of either putting a dollar amount in there so if you have under \$500 you probably do not need to fill out those other forms.

Senator CHILES. Right.

Ms. GRAMM. Or the other way of thinking about it is to strike out the caution part of it and just put in "if you have large amounts of other sources of income, you should consider filling out these other forms."

Senator CHILES. The form, the way it is drawn now, is going to drive a lot of people to go see their accountant or to try to find 919 and to have to go through all of that. How long would it take you to get through 919?

Ms. GRAMM. Well, I have a 919 someplace; let me see if I have it with me. It is a four-page form. What is the burden estimate on the 919, do you know, Jim? Jim is my Deputy Administrator.

It is a publication, so it is actually not a worksheet, so we do not know how long it would take.

Senator CHILES. You do not know how long it takes to read that or fill that out, but it is four pages.

Ms. GRAMM. Yes.

Senator CHILES. Well, I am sure that a lot of senior citizens everywhere would be concerned about that caution and would either be seeing their accountant or scrambling for 919 and trying to have to go through that.

Again, if they had \$40 or \$50 in interest, or a couple of hundred, they could be—

Ms. GRAMM. These are, again, ideas that we have had and we have raised them with IRS and we have been talking with IRS and, very frankly, modifying our views as we go along.

The question really is whether or not, if you have a large amount of other sources of income, you should use these other forms. But what does the word "large" mean to certain people? For some people, \$100 may be large, so maybe just even the term "large" would not provide as much information or would not provide as much simplicity as, say, a dollar amount.

There is some difficulty with putting a dollar amount in. We would not want to imply that—

Senator CHILES. I agree. I would worry about that, but I do not substitute my judgment for your being able to work it out. What other questions do you see?

Ms. GRAMM. Well, as I stated before, we have made some suggested changes on the instructions in the first two paragraphs. As a matter of fact, we have done a little mock-up just to see if some of our ideas would work out and we have discussed some of these ideas with IRS and received their input on them, and we have tried to put in the top part of the instructions just to see if we could fit instructions in and not use up too much space.

We have suggested a few changes in the first items; actually, in pretty much all of the columns under the instructions. I do have a copy of some of these ideas if you would like to see them.

The main purpose of the instructions is to guide people to that portion of the form that they need to fill out.

For example, consider the middle column titled, "What Do I Need to Do." I talked about the exempt employees. Exempt employees could go right down to line 6. But, very frankly, there are a number of other people who can stop at line G of the form, right here.

All they would have to do would be to fill in lines A through G.

Senator CHILES. How many people could stop at that line?

Ms. GRAMM. I believe there are 36 million.

Senator CHILES. Thirty-six million people could stop right there. Do they know that?

Ms. GRAMM. They would know that, actually, when they got down to right here, right down at the bottom. "If neither of the above situations applies to you, stop here and enter the number from line G."

This page is a lot simpler than the W-4, you understand.

Senator CHILES. Right.

Ms. GRAMM. It might be useful to tell people right up front here that they do not have to go any further; that this first page is all they have to fill out. It is very simple. It is not that much different than the old form.

Senator CHILES. Many people would just get the form, you are saying, and look at it and say that is too complex. I cannot complete this form. I have to take it to my accountant or I have to get some help on it.

If they knew just in the instructions that 36 million of them would not have to fill that out, they might say that is not too tough; I can do that.

Ms. GRAMM. Right, and when you add—

Senator CHILES. So between the 36 and the 12, we are talking about 48 million people who literally could stop very quickly on the front page, and if they knew that they would not be faced with the dilemma of what they did to fill out page 2.

Ms. GRAMM. That is right. Again, it is a way of making the form perhaps a little more user-friendly. These are ideas that we have had. Again, they are suggestions. I want to spend some time talking to Booz-Allen and Hamilton.

Senator CHILES. And that is 48 million people not counting the number of people who have small incomes.

Ms. GRAMM. That is right.

Other suggestions—you mentioned the caution. The issue about when I should file—the IRS would very much like to have these forms filled out, and it is important for people to file as soon as possible.

Senator CHILES. Well, the law also says, does it not, that you will not be penalized if you file the same amount of withholding tax that you filed the year before?

Ms. GRAMM. That is right.

Senator CHILES. Is that stated in the form anywhere?

Ms. GRAMM. That is not on that form, and that is a suggestion that we had. However, that raised the concern that we would be telling people how to avoid what they are supposed to be doing under the law. But, secondly, raising the issue of the penalty does create concerns for people that may be needless.

Senator CHILES. It would seem to me there should be some information available to inform taxpayers that it is the law. We put it in the law and should let them know that they will not be penalized if they do that. They might elect to do that.

Ms. GRAMM. In the actual form itself, the changes that we suggest would be things like—and here is an idea that might also be helpful—right at line G, one might add, basically, read the following to see if you need to stop here. So we can, again, give more indications that you may be able to stop here and do not have to finish the form.

Senator CHILES. Have you tested these suggestions out with the public to see on your mock-up form whether it would be easier?

Ms. GRAMM. I have not done a test with the public, no.

Senator CHILES. Is that something that you need to do?

Ms. GRAMM. Well, I would like to get the public more involved in this and to get an answer to some of these suggestions. We do not want to suggest something that might end up confusing them.

Senator RUDMAN. Mr. Chairman?

Senator CHILES. Yes, sir.

Senator RUDMAN. You know, sometimes we do things according to the book around this town. Maybe we might be creative. Why do you not get two or three of your bright, young people, Dr. Gramm, give them a stack of the forms and a good-looking sign, send them out to all the major shopping centers around Washington this weekend and ask people to volunteer and come and help the Office of Management and Budget decide whether or not this is a good form?

I am serious; send out three or four very bright, young people, get maybe 300 or 400 taxpayers to sit down and fill this out, and let them report back to you and tell what they found out there. You know, it might be very worthwhile.

Ms. GRAMM. We certainly can do that.

Senator RUDMAN. I am not suggesting you do or you do not. I am just saying that, quite frankly, a little market testing on the original one and you never would have—not you—they never would have printed 350 million copies of it.

Ms. GRAMM. Yes.

Senator RUDMAN. It never would have happened, in my view.

Ms. GRAMM. That is right. You know, mall-testing and shopper survey testing, sample testing like that can really be useful.

Senator RUDMAN. The best way to really find the general public, in my view, is not to try to do any pre-selection; just go out and get America as it travels through the malls on the weekends. [Laughter.]

That seems to be the new thing to do; that is, assuming you can find anybody there over 21. But I would suggest that you might find out some things that you would find no other way if you went out to the general public.

Mr. Chairman, I am going to have to leave the hearing, unfortunately. I am heading back to New Hampshire shortly. Actually, I appreciate your calling the hearing and I came over here this morning to find out how to fill out the form, actually.

You have been a leader in this. I understand that the chairman of this Subcommittee—and I guess this is our first hearing—was the sponsor or principal cosponsor of this whole legislation back in the 96th Congress. It was before I got here, so that is no accident that we are discussing it this morning.

I appreciate hearing your testimony, Dr. Gramm. I am sorry I cannot hear the testimony of others, but I certainly hope that when this finally goes out that we do it right this time because, you know, it is interesting.

I did not hear much about Iran and diversion of funds to the Contras in New Hampshire for the last three weekends, but I have sure heard a lot about this.

Ms. GRAMM. Yes.

Senator CHILES. Thank you very much, and we appreciate your appearance here and your help in this. You have been tremendously concerned, Senator Rudman, in government regulations, paperwork, oversight, and efficiency, and we are delighted to have your participation on the Subcommittee.

Senator RUDMAN. Well, I am sure Dr. Gramm wants to do everything we can to hold down government expenditures to meet certain targets that certain people have established in law. So we hope we can stop spending money for forms we are not going to use.

Thank you, Mr. Chairman.

Senator CHILES. Thank you, sir.

Dr. Gramm, I notice that the estimate has been made that this is going to take 80 million hours, the estimate by IRS. My understanding is with 185 million people sort of filling out this form, that estimate breaks down somehow in their coordination to about 30 minutes per person. Have you tested that out?

Ms. GRAMM. No, but I am taking comments on whether or not that is an accurate estimate. I do not think that burden is—

Senator CHILES. What did you say?

Ms. GRAMM. I do not think that estimate is an accurate one.

Senator CHILES. So, you do not think that is accurate? Will you make some kind of estimate on that and let us know, even when we finish the final form on that?

Ms. GRAMM. Yes.

Senator CHILES. What kind of cooperation are you getting now from IRS in regard to your suggestions that you are making?

Ms. GRAMM. It has been very good. In the last few days, we have spent an awful lot of time with them. Basically, our job is to ask a lot of questions. We have been asking a lot of questions, raising some of these suggestions and working with them. They are making suggestions as well, so it is good cooperation.

Senator CHILES. The IRS Commissioner has said he would not penalize people if they filed before June 1st. Should that not be on the form?

Ms. GRAMM. We have raised it, and perhaps you should raise that issue to IRS. It is something that we wondered about, whether or not that discussion should be put on the form or not.

Senator CHILES. Was a copy of the form itself placed in the Federal Register?

Ms. GRAMM. No.

Senator CHILES. Would that not be sort of helpful while you are soliciting comments to put a copy of the form out there?

Ms. GRAMM. It would be helpful. The form was available through newspaper reports, but, very frankly, there are people who might have missed those press reports, and if they could be told where to go in their library to get the form, that would have been useful.

Senator CHILES. Do you know whether OMB or IRS has received any written comments?

Ms. GRAMM. We have received comments from the Business Advisory Council on Federal Reports. We had a meeting, but I believe they have also sent us some written comments.

Senator CHILES. So you have received written comments?

Ms. GRAMM. Yes, we have received some comments.

Senator CHILES. Well, let me just ask you, then, summing up, do you think, now that the Act has been reauthorized with stronger amendments, that your office stands in a stronger position now to try to see that the requirements of the law are carried out? Does the public get a chance to participate and make comments and we do get a chance to see if we can find the simplest form and make the easiest burden we possibly can on the public in this regard?

Ms. GRAMM. Yes, we certainly will work to do that.

Senator CHILES. Well, that is what we are looking for you to do, and I want you to clearly understand this Committee, and I think many in the Congress, stand willing to assist you in that regard and to insist that you do carry out the law. We think that it is one of the provisions the public feels very, very strongly about; business people do, citizens do.

I know just the idea that my senior citizens might be able to save themselves the worry and the concern about whether they have to fill out this form or take it to a tax person to look at when maybe they are living on Social Security and have a few hundred dollars in income from some savings account they have tucked away—just the anxiety that it causes them, if they have to face this form and worry about penalties, if they could be told that up front, they would just relieve them tremendously.

So I think the role you have is a tremendously important role and we want to assist you in that and try to help you in every way, and we want to insist that you do carry out that role. I think you are dedicated to that purpose.

We thank you for your appearance this morning.

Ms. GRAMM. Thank you, and we thank you for your support.

Senator CHILES. Now, we will hear from Mr. James I. Owens, the Deputy Commissioner of the Internal Revenue Service. Mr. Owens, we will take your statement ¹ in full and place it in the record. If you can give us an oral summary that would be helpful to us.

¹See p. 48.

**TESTIMONY OF JAMES I. OWENS, DEPUTY COMMISSIONER,
INTERNAL REVENUE SERVICE**

Mr. OWENS. Thank you, Mr. Chairman. Mr. Chairman, I am pleased to be here today to talk about the income tax withholding system and the Paperwork Reduction Act. The Internal Revenue Service is deeply committed to minimizing the paperwork burden on the taxpayers, and we recognize that the taxpayers want a very simple, easy to understand form that they can quickly and accurately fill out and we want to strive to provide this to the taxpayers.

At the same time, minimizing the paperwork is only one of the several conflicting objectives that we have to achieve. The forms we produce must be accurate; they must be complete; they must be timely. In the development of the Form W-4, all of these conflicting objectives were present.

We started drafting the Form W-4 in July of 1986 when we believed that a tax act was very likely to be signed. We began by attempting to make the form very similar to the 1986 form, but soon discovered that that was impossible.

When the Act was signed into law in its final version on October 22, 1986, we had only a couple of weeks to complete the work on the form. The timing, we felt, was critical because the law required us to issue new tables under which employers calculate the amount of withholding. These tables would go into effect January 1, 1987, and we had to have a form that was available prior to that date so that employees could adjust their withholding and get accurate results if they wished to do that.

The logistics of printing and distributing hundreds of millions of copies of a form were such that we knew we would be unable to have the form available prior to the first of the year unless we were able to go to print by the end of October.

We had only a few days after the signing of the Act to finalize the form and get it printed. We knew that going to a four-page form and adding increased complexity presented would present some taxpayers with difficulty.

But the Tax Reform Act of 1986 explicitly directed us to design a form, and I would quote from the committee report, "so that withholding from a taxpayer's wages approximates as closely as possible the taxpayer's ultimate tax liability." The increased complexity of the form was a necessary product of this.

It became clear by mid-January that a simplified alternative to the Form W-4 would be necessary, and we began at that time to develop a simplified form. As part of the development of this form, we were able to utilize the consulting firm of Booz-Allen and Hamilton to run a series of focus groups in which the form—

Senator CHILES. Did you use them in the first form?

Mr. OWENS. No, Mr. Chairman, we did not use them on the first one. We did use some of our own employees who did not have the responsibility for carrying out the tax laws but did clerical duties.

These focus groups involved 23 different groups and over 200 taxpayers and were held at the end of January and during February. They were held in Philadelphia, San Francisco, in Texas, in Jack-

sonville, and in other places throughout the country. So we had a rather large geographic spread.

As various versions of the form were found to produce difficulties for some classes of filers, the form was changed to attempt to resolve these difficulties and then we tested them again.

The final form W-4A which was announced by the Commissioner on Monday of this week was the result of these very intensive processes that we went through to develop it. We are confident that the form W-4A is an excellent form based on these tests, and there is present today at the hearing Mr. Gregg Wright, who is the consultant with Booz-Allen and Hamilton, who actually ran the focus groups and can describe the methodology and the results of the focus groups if it is the desire of the Committee, Mr. Chairman.

Mr. Chairman, with your permission, I would like to enter into the record copies of the Booz-Allen and Hamilton report which summarizes the results of the 23 focus groups.

Senator CHILES. It will be entered in the record, attached as an appendage.¹

Mr. OWENS. Timing of release of the form, we think, is very important. Taxpayers who cannot or do not wish to use the long form need an alternative, and we recognize that. Because of the congressionally mandated change in the withholding rate tables that employers use, many people are presently being under-withheld pending the filing of a new form W-4 or W-4A.

We have had a number of concerns expressed by a number of Members of Congress that the Form W-4A be made available as soon as possible. The most recent example of that is from Congressman Pickle, who wrote us on March 3rd, and I quote from that letter,

Each day these people wait increases their risk of under-withholding. At the same time, the only form now available is too complex and confusing for many of them to understand. Therefore, I request that you take whatever steps are necessary to have the new Form W-4A made available as quickly as possible to the public. Time is of the essence, and taxpayers cannot wait another four to six weeks to receive what they need now.

Thus, our objective is to get a simplified form in employees' hands absolutely as soon as we possibly can. However, we cannot finalize them, as we have pointed out here today, until they have gone through the normal process and review by the Office of Management and Budget.

Based on our focus group testing, we are confident that the form W-4A is an excellent form and could be printed in its present form. OMB has some concerns that—

Senator CHILES. And should it be printed in its present form? They should not make any changes in it?

Mr. OWENS. No, I did not say that, Mr. Chairman. I think that results we have seen from the focus groups indicate that it is perfectly acceptable to the public as it is now. I do not want for a moment to imply that further testing and more work would not resolve some of the form or instruction issues that we have talked about here this morning.

¹See p. 53.

Senator CHILES. Thank you. I hope there have been some suggestions that could be helpful. I understand the pressures you are under and I understand that you have Congressman Pickle whipping you on one side saying, "you need to get the form out."

But I know Jake Pickle very well and I do not think he wants you to send out another form that gets the same kind of comments you did on that first one. He will not be saying that is the form I wanted you to send out, and I would not either. Nobody wants that.

Of course, within the light of "as quick as we can," but getting a form out there does not cause all of this unnecessary concern, expense and time is tremendously important.

Obviously, even though you started in July with the first form and tried to work through—and a lot of your problems were caused by the so-called Tax Simplification Act. I happen to be one of the people that did not happen to vote for that Act, but it was caused by that Tax Simplification Act.

Even with that, you ended up with a turkey, and because of that, you know, we finally had to pull it down. You are reworking it and I hope we get it reworked this time so we do not send another bird out there that will not fly.

Mr. OWENS. Mr. Chairman, you are certainly right. Mr. Pickle does not want that, and I know you do not want that.

Senator CHILES. Yes, sir.

Mr. OWENS. And I know we do not want that, and neither does the American public want it, and that is what we have heard from the American public; they do not want the form that is there now.

Senator CHILES. I was delighted to see Secretary Baker make his move when he did and say we are going to pull it down; we are going to work on another one. I think that made a lot of sense.

Hopefully, now we are going to try to get something that will be as good as we can get it.

Mr. OWENS. I do not disagree with that, Mr. Chairman. Our concern is again, on the time, and recognizing the trade-offs that do occur—for every day that we delay, the only form that is is, available is the form that is four pages, and that does require considerable more time to complete for those who want to complete it and can complete it.

Senator CHILES. Well, the Commissioner has told everybody that no one is going to be penalized if they fill out this form by June 1st.

Mr. OWENS. That is correct.

Senator CHILES. Do you not think we ought to put that on and let them know? I mean, if you want to put it on with a stamp, that says "No one will be penalized if they fill out this form by June 1st."

Mr. OWENS. Mr. Chairman, one of the things we have learned which we did not know at the time we issued the W-4 form, the four-page form—that had the penalty issue on it. That has been raised with us by a number of Members of Congress as to why it was there.

What we found out in going to the public is when you raise the issue of a penalty, you do two things. One is you cannot raise the issue of a penalty without describing what the penalty is because that creates a lot of frustration and confusion.

Secondly, when you put the penalty on, the public and the focus groups have said to us that is intimidating to them—it is just dynamite for that to be on there. It causes a great deal of frustration when they begin to read it and when they begin to complete it.

For that reason, we concluded in this form W-4A that the public did not want that and we announced up front that we would not penalize them. If their under-withholding was subject to wages and they submitted it by June 1 we would not penalize them. Therefore, we concluded not to put it on there.

Senator CHILES. Well, you have announced it up front, but I did not happen to know about that announcement. I try to read the papers, several of them, every day; however, I did not know that. I do not know whether everybody in this room knew it. But announcing it up front if people do not know about it does not amount to anything.

Mr. OWENS. Well, it was only announced the first part of this week when the press conference was held, and I know subsequent to that time we have had a number of contacts with the media throughout all of our districts in all the 50 States and we continue to tell the public. I think it is being printed this week more and more.

I guess, finally, I would just comment, Mr. Chairman, that what we have done here is tried our very best to provide an accurate form that follows the mandate of the Congress and the committee reports, as we were requested to do, to provide a form that was accurate, one that met the test of matching the withholding as closely as possible and as accurately as possible to the tax liability.

But when all this was said and done and we had sent the form to the public, the American public said they did not want that form and the Congress has said they did not want that form.

As a result, we went back to the drawing board to design what we now have as the form W-4A, which we believe is a form that the public will accept, complete, and file with their employers. Whatever we do, if we do not have a form that the public will accept and take the time to work through it, it is not acceptable. We believe this form will.

Senator CHILES. Well, it is obvious this form is an improvement over W-4, and I hope that you will take further suggestions and that you can work with Ms. Gramm and her office.

I would like to ask you what is in the pipeline now in regard to 1040, which is coming down, and what are your efforts that are going into that so that we do not go through this same thing with the 1040?

Mr. OWENS. Well, Mr. Chairman, we have an awful lot of things to do between now and the end of the year to implement the entire Tax Reform Act, but this work did not start just in the last month or two. It started back in July, as we tracked the various pieces of legislation.

We cannot wait until everything is signed into law before we begin to do some work. We have to modify many of the things we do, and if we did not start early, we would never get it completed.

We have people working in almost every area, including the forms areas, but it is way too early to have a draft of a 1040 or 1040A for 1987.

Senator CHILES. Well, do you think that going to the Federal Register for comments could be helpful to people?

Mr. OWENS. I think that it is helpful to get the public's comment, and I think we learned that by the focus groups that we used with this form W-4A when we went through the testing.

Senator CHILES. Well, do you think it might be helpful once you have your form to go ahead and print that form so that people can look at that and comment, too?

Mr. OWENS. Yes, and we have done that, and that is why we have some 10,000 copies of the proposed form W-4A printed. It has been in almost every major newspaper, printed in full, as well as in a lot of the local papers.

Senator CHILES. But you did not put that in the Federal Register?

Mr. OWENS. No, it was not in the Federal Register, but I have no objection to doing that. It certainly was not our intent to preclude that.

Senator CHILES. In your burden estimates, have you literally tested this form out to just random citizens to see whether they can fill it out in 30 minutes?

Mr. OWENS. Yes, we have, Mr. Chairman. I have been told in responses that came back from the focus groups that most of them did it in less time than that. Most of them did it in 15 to 20 minutes, depending on how far they had to go down through the form.

Obviously, some who were exempt who could go right to the certificate—that 11 or 12 million we talked about earlier—it certainly did not take them that long. But I am told—

Senator CHILES. Did you talk with any payroll officers for businesses that have to deal with these forms, too?

Mr. OWENS. We have had some conversation with them. We have not talked to them in terms of this specific form or asked them to fill it out. However, there were some employers who were included in the focus groups.

Senator CHILES. Well, we look forward to hearing that you and Ms. Gramm are—your offices are able to work this out. We know it has to be done in a timely fashion, but we hope it will also be done trying to take every consideration into making this the simplest form that we can.

Thank you.

Mr. OWENS. Mr. Chairman, we want to do that, too, and I believe we will be able to do that and get this on the street very, very soon. Thank you, Mr. Chairman.

Senator CHILES. Thank you, sir.

Now, we are going to hear from Mr. Al Golato, the Corporate Director of Public Affairs of H & R Block and Company.

Mr. Golato, I have not asked you to prepare any testimony. I just want to try to ask you to tell me briefly—I understand that in addition to now working for H and R Block and Company, you have waltzed on the other side of the dance floor as well. Tell me something about your past experience, sir.

TESTIMONY OF AL GOLATO, CORPORATE DIRECTOR OF PUBLIC AFFAIRS, H & R BLOCK AND COMPANY

Mr. GOLATO. Well, I used to be National Director of Public Affairs for the Internal Revenue Service. I was assistant for public affairs to three Internal Revenue Service commissioners.

Now, as you said, I am Corporate Director for Public Affairs for H & R Block. Yes, I did go on the other side, you might say. So I do have a perspective of this thing from both sides.

Senator CHILES. Well, from that perception, do you think it is valid to get and to require these public comments and to try to allow the public to comment on this and to see what they think about it?

Mr. GOLATO. Under ordinary circumstances I would say, yes, that is very important. As a matter of fact, our company, which prepares ten million tax returns, is focusing our attention on these things and is giving it to the Internal Revenue Service, and in the future we hope there would be more of that. This also goes for the tax-writing committees of the Congress.

Senator CHILES. Was your company called on to comment on either the W-4 or the W-4A form?

Mr. GOLATO. No, sir, but having seen what we have, there is no question, as I testified before Senator Pryor's subcommittee a couple of weeks ago, that we favored a shorter version W-4A, and we testified to that effect. We are pleased to see that the Internal Revenue Service has come out with it.

I know some people wonder why we would be in favor of something simpler when, as a matter of fact, a more complex one was helpful to our company because many people had to come to us to have it prepared.

The first month we did it for nothing because we weren't busy, but we saw from that experience that most people would come and ask us to help them with the more complex initial W-4.

However, in spite of that, we testified for the simpler one simply because we knew what the reaction was out there—there was a great deal of public frustration. We are pleased to see that the W-4A is now out. I have heard some comments made here earlier, and I think many of the suggestions made by the Office of OMB are positive.

I am pretty sure that the Internal Revenue Service will have no problem in adopting most of them because usually they are open to such suggestions. I know that as a matter of fact.

As you asked, should there be more public participation? Under ordinary circumstances, yes. In this case, Senator, I would say that the need for this form is so imperative now that I think speed takes precedence over perfection.

So to the extent that the Internal Revenue Service and OMB can get together on the suggestions that have already been made, I think that that would be sufficient and it should not be held up any longer.

Senator CHILES. But you think from what you heard this morning, the comments that Commissioner Gramm had are valid as far as improvements that could be made in this form?

Mr. GOLATO. Yes, I do. I took a fast look through it and I think that most of the comments are valid. I could highlight the comments that I think would be very constructive.

For instance, on the first paragraph the improvements to the instructions that are being proposed, I agree 100 percent on that, and the one for the fourth paragraph and the fifth paragraph.

As far as the one on the second paragraph, I do not know. The more you try to place too many instructions in there and use the term "accuracy" or "timely fashion," and so forth, all of this raises a lot of other questions on the part of taxpayers.

So I do not know what they mean by that and my comments may not be too appropriate for that one.

Senator CHILES. I thank you.

Do you have some questions? We are delighted to have Senator Levin with us. He has certainly been concerned in this area, has introduced legislation trying to go back, I think, to the 80 percent withholding as opposed to the 90, which greatly further complicated this.

We are delighted to have you here, Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman, and I commend you for what you are doing here, continuing your lifetime effort to simplify forms and reduce paperwork and make things readable and understandable to folks who have to fill out these forms. I think you are doing a tremendous job in taking this on. It is nitty-gritty stuff, but it has to be done.

I could not agree with you more, by the way, and the points you make in terms of some people who do not itemize, not knowing that until too late in the game that they do not have to fill out the W-4 form. I think you are right on the mark when you say that.

I have one additional comment that I wanted to make to the IRS. Perhaps you can help out, even though you are the wrong party to look at; you may be able to comment one way or another. If there are IRS folks in the room, perhaps they could hear this comment.

One of the real problems with this whole new system is the possibility of under-withholding. There is a real likelihood that many people are going to be under-withheld unless they get this form in early, which is your—

Mr. GOLATO. I agree wholeheartedly, and that is one of our biggest concerns, and I will explain why later.

Senator LEVIN. All right. That is why the urgency issue is raised by you, when you have got to balance the question of urgency versus simplicity, and you have commented on that.

But if people do not get this new form in early, there is a real chance they are going to be under-withheld, and I take it you would agree with that.

Mr. GOLATO. Yes, sir.

Senator LEVIN. And I know the IRS would agree with it.

Now, the word "under-withheld" is important. I am not even so sure that is simple enough or straightforward enough, but what it means is that if you do not file that form in time, you may be owing the IRS one heck of a lot of money next April, even though the form is filled in right. Is that true?

Mr. GOLATO. That is correct; if not owing, something else which may have as much of an impact, and that is a smaller refund than people are accustomed to receiving.

Senator LEVIN. Either that or the possibility that they are going to owe one heck of a lot of money, possibly, next April.

Mr. GOLATO. That is right.

Senator LEVIN. So that we have a situation where even if the form is filed correctly and on time, people could get hit by a huge payment requirement to the IRS next April.

Mr. GOLATO. That is a possibility, but when you say "on time," you mean—

Senator LEVIN. That is what I want to get to.

Mr. GOLATO. Okay.

Senator LEVIN. Legally, they have to file by October 1. That is what I mean by "on time."

Mr. GOLATO. Right.

Senator LEVIN. Now, what do we tell folks on this form? We tell people—when should I file—the first we tell them is "file as soon as possible so that your withholding will more closely match your tax. You must file before October 1."

Now, in my book that is nowhere near clear enough, telling people file right away or else you may owe Uncle Sam a heck of a lot of money next year. I think that we have to state far more clearly than in that one line that there may be a mismatch between withholding and taxes.

It does not tell people clearly you may owe a lot of money, if you only tell them there may be a mismatch. So would you agree that we ought to give a very clear warning that it is possible that unless you file long before October 1, although October 1 is the legal deadline, you could find yourself with a substantial headache next April and you might owe Uncle Sam a lot of money, or as you put it, you might get back a lot less than you think you are going to get or are entitled to?

Mr. GOLATO. Senator, that is why I said that I would not comment on the second paragraph, the suggestion by OMB. I think the instruction there is not sharp enough, as you would want to make it. I think that should be sharper.

But I do think that the Internal Revenue Service feels it has to use the term "accuracy" rather than emphasizing under-withholding simply because this can go either way. It could be under-withheld and it could be over-withheld beyond the amount that people want.

Senator LEVIN. All right, but would you agree with this—and I made this suggestion in a different hearing, but I do not know that the IRS has heard me. I do not think that the witness is still here, and I do not know that there are other folks from the IRS that are still here.

The Chairman is not here, but I am sure he would agree that my comments be forwarded to the IRS. Now that I am Chairman—I understand our Chair cannot come back—I am going to formally order that my comments and suggestions be forwarded to the IRS.

Would you agree that they ought to clearly tell people at least that if you do not file early that you may find yourself owing a

large lump-sum payment to the IRS when your taxes are due next year?

Mr. GOLATO. I would like to see that, in spite of the anticipated argument that it could go either way. I personally would like to see that because I have the other reason, as I told you before.

Senator LEVIN. I understand. They could put down both that it could go either way, but at least they ought to tell you that you may owe a lump-sum payment.

Mr. GOLATO. Yes, emphasize it.

Senator LEVIN. Okay. Again, let me just try to put the bottom line on this. Once they say it is due October 1, that is what people are going to have in their minds. The due date on that darned W-4A is October 1 and I can wait until October 1.

Unless they are clearly warned of what the impact of waiting is, you can act legally and get socked next April. Unless they are told that, it seems to me we are really misleading people.

So we welcome your comments, your testimony. The Chairman particularly wanted to thank you for coming today and offering your wisdom and experience in this regard, and on behalf of the Chairman, I will close the hearing.

Mr. GOLATO. Thank you. I did want to make two fast statements, if I may.

Senator LEVIN. Sure, yes.

Mr. GOLATO. One is I would urge you to continue with your proposal to pass that legislation about permitting the 20-percent gap rather than the 10 percent. I think that will resolve a lot of people's problems.

The other thing is—

Senator LEVIN. If I could interrupt you, though, that only goes to the penalty issue and does not go to the under-withholding and lump sum issue.

Mr. GOLATO. That is right.

Senator LEVIN. All right.

Mr. GOLATO. The other is that in April 1988, the 80 percent of people who now receive refunds, and they do so in most instances deliberately, aside from the very serious problems that you see here and that others have mentioned, there is the problem that very many of them will be disappointed in not receiving the amount of refund that they are accustomed to and, in some cases, having to owe tax.

To add that disappointment to the frustration that they are going through now and the added one of a new Tax Reform Act—I suspect that many of you sitting on that side are going to be hearing a great deal from taxpayers in an election year.

Senator LEVIN. Now, while you are still with us, I have one additional quick question on a slightly different aspect, and that has to do with whether or not the penalty which will be waived if there is a good-faith effort makes it desirable for taxpayers to keep their worksheets so that they can prove the good-faith effort.

Would you agree that it would be desirable for the taxpayer to keep that worksheet?

Mr. GOLATO. Yes. As a matter of fact, Senator, we are recommending that to all of our preparers so that if there is any question

later, there is some evidence to show that there was a good-faith effort.

Senator LEVIN. And would it not then be a good idea for that form to suggest that the taxpayers keep their worksheets?

Mr. GOLATO. Well, I really hate to say that it would because there are so many things that we could suggest. But every time we add something to it, we are making it more complex because it gets a little bit longer, requiring more reading.

Senator LEVIN. All right, so that it would be a good idea if we do not thereby burden this form with more complexity and wordage. It is a matter of weighing that always.

Mr. GOLATO. Yes, sir.

Senator LEVIN. But with that consideration in mind—that it is a matter of judgment and weighing, would you agree that at least it would be a good idea theoretically to do so, and you have got to balance it against the extra paperwork and complexity?

Mr. GOLATO. Eliminating fear on the part of taxpayers is always important because there is too much out there unnecessarily now.

Senator LEVIN. Thank you again for your testimony.

Mr. GOLATO. Thank you, Senator.

Senator LEVIN. This hearing is adjourned.

[Whereupon, at 11:27 a.m., the Subcommittee was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

PREPARED WRITTEN STATEMENT
of
WENDY LEE GRAMM
ADMINISTRATOR
OFFICE OF INFORMATION AND REGULATORY AFFAIRS
before the
SUBCOMMITTEE ON FEDERAL SPENDING, BUDGET, AND ACCOUNTING
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
March 6, 1987

Mr. Chairman and members of this subcommittee:

It is a pleasure to be here with you today. I want to discuss our ongoing efforts to implement the Paperwork Reduction Act, and how we are moving ahead to implement an important amendment to it that you supported last year. I also want to outline our use of the Paperwork Reduction Act as part of our current effort to improve the IRS Form W-4A, the "Employee's Withholding Allowance Certificate."

The Paperwork Reduction Act of 1980

The Paperwork Reduction Act is an ambitious attempt to control the government's collection and use of information. Building on the Federal Reports Act of 1942, the Federal Records Act, the Brooks Act, the Privacy Act, and related laws, it requires that we examine and improve the management of Federal information activities toward two ends--

First, to minimize the burden imposed on individuals, businesses, and other levels of government by reporting and recordkeeping requirements; and

Second, to encourage the efficient use of information and information processing technology within the Federal government.

The unifying theme of the Act is that information is a scarce economic good--which, like all goods, has costs of production as well as benefits of use. Essentially, it is the responsibility of the Administrator of the Office of Information and Regulatory Affairs (OIRA) within the Office of Management and Budget (OMB) to assure that the benefits of collecting the data outweigh the costs of obtaining and using it.

OMB Decision Criteria. Specifically, the Paperwork Reduction Act requires that OMB decide whether or not to approve the collection of information by any agency. While the Act's underlying goal is to minimize the Federal paperwork burden on the public, the Act also recognizes the need to weigh the burdens of the collection on the public against the needs of the agency. Thus, the Act requires OMB to balance the needs of the agency, and the practical utility of the information the agency may receive, against the burden on respondents and costs involved.

In this process, the Paperwork Reduction Act establishes an important role for Federal agencies, and as well as providing a coequal role for the public. Under the Paperwork Reduction Act, agencies have to justify each proposed collection of information in writing, and have their justification publicly available for all to see. To help the public, agencies have to give notice in the Federal Register of submittal of the agency's clearance request to OMB. The public--during OMB's review and at any other time--is to have full opportunity to make its views known concerning any Federal data collection.

Agency Role. The agencies have to request OMB approval to use the data collection instrument--whether it is in a written questionnaire, an oral interview, or some obscure data collection in a regulatory provision buried deep in the Code of Federal Regulations. In submitting a request to OMB, an agency must demonstrate that the collection of information is the least burdensome necessary for the proper performance of its functions, that the collection is not duplicative of others, and that the collection has practical utility.

To assure practical utility of information collections, the agency should be using effective management controls to plan and develop agency information needs. The agency should be collecting only such data as it can use; seeking only that level of detail needed; having it submitted no sooner than the likely time of actual use; and precisely defining recordkeeping

requirements and retention periods, based on likely periods of actual inspection and use.

For paperwork planning efforts to be effective, agencies should be sensitive to the concerns of respondents--the money, time, potential confusion, personal attitudes, managerial coordination, and staff involved. Agency information management controls should assure the careful evaluation of the impact of paperwork on each category of respondents, particularly individuals who are inexperienced with Federal information collection efforts.

Role of the Public. The Paperwork Reduction Act also sets forth various procedures to facilitate public comment on proposed and existing information collections. Agencies must give notice in the Federal Register that OMB has a proposed collection of information under review, and OMB must give the public meaningful opportunity to comment.

As another procedural safeguard, OMB may not approve a collection of information for a period in excess of three years. This restriction forces agencies to (1) resubmit periodically each ongoing collection of information for OMB review, (2) give notice to the public of agency and OMB reconsideration, and (3) invite the public and respondents to suggest improvements or to point out unreasonable burdens.

Improved Public Notice of Paperwork Clearances

The Paperwork Reduction Reauthorization Act of 1986 amended the Paperwork Reduction Act of 1980. A key aspect of the Paperwork Reduction Reauthorization Act is to foster the ability of the public to participate fully and constructively in the paperwork review process.

The 1986 paperwork reduction amendments require that each agency give the public notice in the Federal Register that it has submitted a collection of information for OMB review. Specifically, this legislation includes clear guidelines about information each agency should include in a Federal Register notice. At a minimum, the notice must contain a title for the collection of information, a brief description of the need for the information and its proposed use, a description of the likely respondents and the proposed frequency of response to the collection of information, and an estimate of the burden that will result from the collection of information. The purpose of this notice is to give a clearer signal to the public of the proposed collection of information OMB has under review, thus bringing home to the public who might be affected and how.

In response to this and other amendments to the Paperwork Reduction Act, we are in the process of developing proposed amendments to the applicable OMB rules (5 CFR 1320). The attached memorandum has been sent to agencies, pending

promulgation of the rule applicable to the 1986 Paperwork Reduction Act amendments.

You might be interested to know the types of proposals our staff is considering to ensure that the public is able to participate in the process established by the Paperwork Reduction Act. First, we are considering whether to require agencies, in publishing their notices, to disaggregate their estimates of aggregate annual burden into discrete components--the average hours per response, the frequency of response, and the likely number of respondents. Second, we are considering whether to require agencies to publish the proposed form in the Federal Register, at least on those occasions when agencies seek expedited review or the form is highly burdensome. Third, we are considering having agencies print, on the face of a form, estimated average respondent burden hours, together with a request that respondents direct any comments on the accuracy of that estimate to OMB.

OIRA's Paperwork Clearances

Under the Paperwork Reduction Act, the Office of Information and Regulatory Affairs (OIRA) has reviewed an average of nearly 3,800 information collections each year, or over 265 a month. Our disapproval rate is around 7 percent, with, on average, 22 disapprovals a month. This is a heavy workload, but I believe we have been quite successful in keeping paperwork burdens as low as

possible.

This is not to say, however, that our paperwork clearance system works perfectly for each transaction. In general, when agency clearance requests come in for our review, staff and their immediate supervisors try to separate the obvious problems from the obvious non-problems. If an agency asserts a strong need, and, given adequate notice and time, the public comes in and demonstrates heavy burden, the competing interests are clear. Likewise, if the agency seeks routine extension of a well-established, reasonable, ongoing data collection, and there are no complaints on file, and none come in within a reasonable time period, then the OMB decision-process is also straight-forward.

The IRS Form W-4

With the IRS Form W-4, the facts were not so simple. The IRS development, and our initial review of the IRS Form W-4 and the IRS Form W-4A, is a case study of how the process can be frustrated; of a situation in which it appears that burdensome features in a form are mandated by law, yet the statutory structure requires implementation so quickly that it precludes adequate opportunity for public comment.

In our initial review of the IRS Form W-4, we heard from the agency, which asserted a problem of time pressure, but we did not

hear from the public. The IRS sent us the proposed IRS Form W-4 on Monday, October 6, 1986. The IRS sent the public notice to the Federal Register on October 8, and the Federal Register published the public notice on Thursday, October 9. We approved the form on Tuesday, October 14. Our normal review process was truncated by Treasury's need to print more than 360 million forms, and to send them to employers early enough so that workers could fill them out by the end of December, in time for the new tax year. On the other hand, the public had only two working days in which to comment before OMB approved the form.

As a result of subsequent public reaction, IRS has developed a new IRS Form W-4A. IRS provided copies of the form to us and the public on Monday of this week, when our formal review began. On Tuesday, the second day of our formal review, we provided some suggestions for improving the proposed IRS Form W-4A to members of the IRS staff. Since then, IRS and OMB have met to discuss the suggestions we have made. We also met yesterday with representatives of the business community who wished to provide comments to us about the costs associated with providing employees advice and time off in the job to complete their withholding statements.

Let me tell you now, our initial response is that IRS has done an excellent job of simplifying a complex form. This proposed IRS Form W-4A is a significant improvement over the existing IRS Form W-4. We hope to complete our ongoing review within a week, after

the public has had some additional time to provide comments.

We believe that our procedures will not impede the timely delivery of IRS's proposed Form W-4A to the public, and that they will ensure at least some participation by the public as required by the Paperwork Reduction Act.

Thank you for the opportunity to appear before you. I would be most willing to answer any questions you may have.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FEB 13 1987

MEMORANDUM FOR THE PAPERWORK REDUCTION ACT SENIOR OFFICIALS AND
AGENCY REPORTS MANAGEMENT OFFICERS

FROM: James B. MacRae, Jr. *JBM*
Deputy Administrator
Office of Information
and Regulatory Affairs

SUBJECT: Public Notice Under the Paperwork Reduction Act

The Congress passed the "Paperwork Reduction Reauthorization Act of 1986" as part of the recent Continuing Resolution (H.J. Res. 738; P.L. 99-591). This reauthorization amended the "Paperwork Reduction Act of 1980" in a number of ways, and in response, we are in the process of developing amendments to the applicable OMB rules (5 CFR 1320).

The amendments to the Paperwork Reduction Act took effect upon enactment. One legislative amendment, in particular, requires your prompt attention, and should be complied with prior to any issuance of our regulatory amendments.

This amendment to 44 U.S.C. 3507(a)(2)(B) states explicitly the minimum information that an agency must provide the public in its Federal Register notice of submission of an information collection for OMB clearance. Specifically, this agency notice is to set forth:

a title for the information collection request, a brief description of the need for the information and its proposed use, a description of the likely respondents and proposed frequency of response to the information collection request, and an estimate of the burden that will result from the information collection request....¹

The congressional intent behind this standardization of information to be contained in agency notices is to encourage both more and better public comments on proposed information collections. Even before we issue any amendments to our rules, we ask you to review your existing Federal Register notices of submission of an information collection for OMB clearance in

¹We note that these amendments now define "collection of information request" to include a "collection of information requirement" (44 U.S.C. 3502(11)).

order to assure that your notices are in compliance with this new legislative amendment.² We also remind you that, in accordance with OMB's existing rules,³ you are to submit a copy of this Federal Register notice to us, along with your paperwork clearance packages.

The Office of Information and Regulatory Affairs will be reviewing your paperwork clearance requests for compliance with these rules and the spirit of this new statutory amendment. To provide flexibility to agencies, we have decided not to require agencies to adopt a rigidly defined, standardized notice. On the other hand, consistent with the Paperwork Reduction Act, we view our role in this review process to encourage more and better public participation. We will review agency clearance requests, and disapprove or return for corrective action any clearance request that fails to provide full and timely notice to the public. If you have any questions concerning this matter, please contact your Desk Officer.

²Our April 2, 1982, Memorandum entitled, "Federal Register Announcements of Proposed Collections of Information," sent to you by Administrator Christopher DeMuth included other recommendations as well:

[T]he notices should ask the public to send any comments they may have on the proposals to the agency and to the OMB Desk officer for the agency. [The agency] should provide the public with an earlier opportunity to comment on proposed information collections than is now the case.

³5 CFR 1320.12(a); 1320.13(a)&(b); and 1320.14(b).

Latest List of Suggestions

Improvements to Instructions

First paragraph: Tells taxpayers upfront that the new form is easier and you don't have to file a new one.

Second paragraph: Cautions taxpayers about the W-4A form's accuracy and problem of not filing in a timely fashion. Combines caution statements in one place.

Third paragraph: Tells the 12 million exempt employees they can skip the first worksheet. Tells the remaining 82 million they have to fill out the first sheet, but that most won't have to turn the page (47 million). All this information is new.

Fourth paragraph: Tells people with large amounts of nonwage income that they might need to use different forms (W-4, 1040-ES, and Publication 919). Before taxpayers with any nonwage income might have been scared into using the long forms.

Fifth paragraph: Tells people to file ASAP to avoid having too little withheld. Before said to file ASAP just to be more accurate.

Sixth paragraph: Almost the same except clarified by adding allowances.

Seventh paragraph: No changes.

Changes to the Form Itself

Put the four "stop here" and "do not use the rest of this worksheet" directions in boldface type.

- o line G
- o deductions worksheet line 10
- o two-earner worksheet line 3
- o two-earner worksheet line 5

Add "combined earnings from all jobs" on two-earner worksheet line 3.

Add "Cut here and give the certificate to your employer. Keep the top portion for your records."

Add to dotted line on certificate an expiration date above the OMB number.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 27 1987

Honorable Lawton Chiles
Senate Governmental Affairs Committee
Subcommittee on Federal Spending,
Budget, and Accounting
326 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Chiles:

I thought you and members of your Subcommittee might be interested in a report on the Internal Revenue Service's (IRS) Form W-4A, Employee's Withholding Allowance Certificate, as a follow up to your Subcommittee's Oversight Hearing on March 5th.

Following the hearing, we continued to work with the IRS on the W-4A, discussing the various suggestions made at the hearing. We also decided to take up Senator Rudman's suggestion of handing out test forms over the next weekend. We handed out two versions of a new W-4A form -- the one the IRS had announced on March 2nd and the one IRS and OMB had developed during the week in response to questions and suggestions made at your hearing and elsewhere.

The two versions of the forms were distributed over the weekend to shoppers at various malls in the Washington, D.C. metropolitan area. Participants were asked to call OMB on Monday to answer questions on their reactions to filling out the form. Although this approach is not scientific, we did receive some additional comments from the public that enabled IRS and us to streamline and refine the form further.

After working up a new form, IRS tested it on four focus groups. We also sent an observer from OMB who reported that most people had little difficulty with the new form. Overall, the directions have been made easier to follow and less confusing and the form takes less time to fill out than before.

The following changes have been made to the form (see the attached):

- o Taxpayers are clearly cautioned that the form is more accurate the sooner it is filed.
- o Twelve million exempt filers are told that they do not have to fill out the allowances worksheets. The 82 million remaining filers are also told that they have to fill out the first page, but that most can stop there.

- o It is suggested that those taxpayers with "large" amounts of nonwage income consider using the W-4 form or making estimated tax payments. The earlier instructions cautioned that any amount of nonwage income might require the use of the longer forms.
- o Taxpayers are told to file as soon as possible in order to minimize underwithholding problems and also told exactly what happens if they do not file by October 1st.
- o Boldface print is used at various places to tell taxpayers that they can stop there and thus, not fill in needless information.
- o Filers are told that they should give the certificate to their employers and keep the worksheets for their records. Previously, filers were not told what to do with the various parts of the form.
- o The two-earner/two-job worksheet has been changed to make it clear that earnings from all jobs should be combined on line 3.
- o The tables used for the two-earner/two-job worksheet have now been so labelled and it is made clear that the entry obtained from the table should be made on the worksheet, not the certificate.

There were also other suggestions that we and others made that were not incorporated in the final W-4A form.

- o An OMB expiration date was not included on the certificate because it was thought that it would lead to confusion. Some taxpayers might think it meant that they had to file a new W-4A form on December 31, 1987. In any case, OMB has extended clearance just through that date.
- o A dollar amount, such as \$500, of nonwage income to signal when filers should consider filing the W-4 or paying estimated tax was not used because many people making more than that amount can still use the W-4A form. As long as itemized deductions exceed nonwage income, one can usually use the short form.
- o A suggestion that the allowance withholding approach be replaced or supplemented with a system based on a dollar amount of withholding was not implemented because the dollar amount would usually have to change with unexpected changes in income. The withholding allowance approach automatically adjusts for changes in wage income. This "dollar" approach for filers with

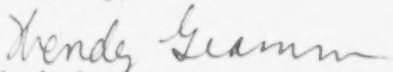
complicated tax situations can be reviewed again in planning for the 1988 form. However, it is likely that this approach will require a statutory change.

- o A suggestion to discuss in the instructions the June 1st date that IRS has said will be used to waive penalties for underwithholding if new withholding allowance certificates are filed by that date was rejected as being confusing when included in the same paragraph as the October 1st date. It might also be confusing for filers who have to file after June 1st because they are just entering the job market and filling out the form for the first time.

We cleared the new version on March 12th. Because we had been working closely with the IRS over the review period, the final version of the W-4A was immediately ready for the printer. IRS expects to have the new forms in the public's hands by the end of April.

We appreciate your interest in the Paperwork Reduction Act and in our efforts to minimize the Federal reporting burden.

Sincerely,


Wendy L. Gramm
Administrator for Information
and Regulatory Affairs

Enclosures

cc: Senator Sam Nunn
Senator Carl Levin
Senator Jeff Bingaman
Senator Warren Rudman
Senator Ted Stevens
Senator John Heinz

NEW FORM W-4A

1987 Form W-4A

Department of the Treasury
Internal Revenue Service

What Is Form W-4A? This form is an easier way to figure your withholding than the 4-page 1987 Form W-4. If you have already given your employer a Form W-4 this year, do not file a new Form W-4A unless you wish to change your withholding.

Caution: Form W-4A may cause more or less tax to be withheld from your wages than you wish because it adjusts your withholding only for pay you receive after it takes effect. If not enough tax was withheld earlier in the year, you can increase your withholding by reducing the allowances claimed on line 4 of the form or by requesting that more money be withheld on line 5 of the form.

Exemption From Withholding—Important Change in Law. If you are a dependent of another person (for example,

a student who can still be claimed on your parents' return), you are not exempt if you have any nonwage income (such as interest on savings) and expect your total income to be more than \$500.

What Do I Need To Do? Exempt employees can skip the Worksheet and go directly to line 6 of Form W-4A. All others must complete lines A through G. Many employees can stop at line G of the Worksheet.

Nonwage Income? If you have a large amount of income from other sources (such as interest or dividends), you should consider either using the 1987 Form W-4 or making estimated tax payments using Form 1040-E. Call 1-800-424-3676 (in Hawaii and Alaska, check your local telephone

directory) for copies of the 1987 Form W-4 and Publication 919, "Is My Withholding Correct?"

When Should I File? File as soon as possible to avoid underwithholding problems. If you do not file by October 1, 1987, your allowances may be adjusted to "1" if single or "2" if married and your take home pay may be reduced.

Two-Earner Couples? More Than One Job? To figure the number of allowances you may claim, combine allowances and wages from all jobs on one worksheet. File a Form W-4A with each employer, but do not claim the same allowances more than once. Your withholding will usually be more accurate if you claim all allowances on the highest paying job.

W-4A Worksheet To Figure Your Withholding Allowances

Enter "1" for yourself if no one else can claim you as a dependent **A** _____

Enter "1" if: **B** _____

1. You are single and have only one job; or

2. You are married, have only one job, and your spouse does not work; or

3. Your wages from a second job or your spouse's wages (or the total of both) are \$2,500 or less.

Enter "1" for your spouse if no one else claims your spouse as a dependent **C** _____

Enter number of dependents other than your spouse that you will claim on your return **D** _____

Enter "1" if you want to reduce your withholding because you or your spouse is at least age 65 or blind and you do not plan to itemize deductions **E** _____

Enter "1" if you want to reduce your withholding because you have at least \$1,300 of child or dependent care expenses for which you plan to claim a credit **F** _____

Add lines A through F and enter total here **G** _____

If you plan to itemize or claim other deductions and wish to reduce your withholding, turn to the Deductions Worksheet on the back.

If you have more than one job or a working spouse AND your combined earnings from all jobs exceed \$25,000, or \$15,000 if you are married filing a joint return, turn to the Two-Earner/Two-Job Worksheet on the back if you want to avoid having too little tax withheld.

If neither of the above situations applies to you, stop here and enter the number from line G on line 4 of Form W-4A below.

Cut here and give the certificate to your employer. Keep the top portion for your records.

Form W-4A Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate For Privacy Act and Paperwork Reduction Act Notice, see reverse.		OMB No. 1545-0047 1987
1 Type or print your full name		2 Your social security number		
Home address (number and street or rural route)		3 Marital Status ☐ Single ☐ Married ☐ Married, but withheld at higher Single rate. Notes: If married, but legally separated, or spouse is a nonresident alien, check the Single box.		
City or town, state, and ZIP code				
4 Total number of allowances you are claiming (from line G above, or from the Worksheets on back if they apply)		5 Additional amount, if any, you want deducted from each pay \$		
6 I claim exemption from withholding because (check boxes below that apply):				
☐ Last year I did not owe any Federal income tax and had a right to a full refund of ALL income tax withheld, AND				
☐ This year I do not expect to owe any Federal income tax and expect to have a right to a full refund of ALL income tax withheld. If both a and b apply, enter the year effective and "EXEMPT" here Year 19				
☐ Are you a full-time student? Yes ☐ No				
Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate (7, if claiming exemption from withholding, line 1) and I am not claiming the exempt status.				
Employee's signature		Date		1987
7 Employer's name and address (Employer: Complete 7, 8, and 9 only if sending to IRS)		8 Office code		9 Employer identification number

Form W-4A (1987)

Deductions Worksheet**NOTE:** Use this Worksheet only if you plan to itemize or claim other deductions.

1. Enter an estimate of your 1987 itemized deductions. These include: home mortgage interest, 65% of personal interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions (most miscellaneous deductions are now deductible only in excess of 2% of your income) **1** 3
2. Enter: $\left\{ \begin{array}{l} \$3,760 \text{ if married filing jointly or qualifying widow(er)} \\ \$2,540 \text{ if single or head of household} \\ \$1,880 \text{ if married filing separately} \end{array} \right\}$ **2** 3
3. Subtract line 2 from line 1. Enter the result, but not less than zero **3** 3
4. Enter an estimate of your 1987 adjustments to income. These include alimony paid and deductible IRA contributions **4** 3
5. Add lines 3 and 4 and enter the total **5** 3
6. Enter an estimate of your 1987 nonwage income (such as dividends or interest income) **6** 3
7. Subtract line 6 from line 5. Enter the result, but not less than zero **7** 3
8. Divide the amount on line 7 by \$2,000 and enter the result here. Drop any fraction **8** 3
9. Enter the number from Form W-4A Worksheet, line G, on page 1 **9** 3
10. Add lines 8 and 9 and enter the total here. If you plan to use the Two-Earner/Two-Job Worksheet, also enter the total on line 1, below. Otherwise stop here and enter this total on Form W-4A, line 4 on page 1 **10** 3

Two-Earner/Two-Job Worksheet**NOTE:** Use this Worksheet only if the instructions at line G on page 1 direct you here.

1. Enter the number from line G on page 1 (or from line 10 above if you used the Deductions Worksheet) **1** 3
2. Enter "1" if you are married filing a joint return and earnings from the lower paying jobs held by you or your spouse exceed \$3,000. Otherwise enter "0" **2** 3
3. Subtract line 2 from line 1 and enter the result here. If you entered "1" on line 2 and combined earnings from all jobs are less than \$40,000, enter the result on Form W-4A, line 4, page 1, and do not use the rest of this worksheet. Otherwise, continue **3** 3
4. Find the number in Table 1 below that applies to the **LOWEST** paying job and enter it here **4** 3
5. If line 3 is **GREATER THAN OR EQUAL TO** line 4, subtract line 4 from line 3. Enter the result here (if zero, enter "0") and on Form W-4A, line 4, page 1. Do not use the rest of this worksheet **5** 3
6. If line 3 is **LESS THAN** line 4, enter "0" on Form W-4A, line 4, page 1, and enter the number from line 4 of this worksheet **6** 3
7. Enter the number from line 3 of this worksheet **7** 3
8. Subtract line 7 from line 6 **8** 3
9. Find the amount in Table 2 below that applies to the **HIGHEST** paying job and enter it here **9** 3
10. Multiply line 9 by line 8 and enter the result here **10** 3
11. Divide line 10 by the number of pay periods each year. (For example, divide by 26 if you are paid every other week.) Enter the result here and on Form W-4A, line 5, page 1 **11** 3

Table 1: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from LOWEST paying job are—	Enter on line 4, above	If wages from LOWEST paying job are—	Enter on line 4, above
0 - \$6,000	0	0 - \$4,000	0
6,001 - 10,000	1	4,001 - 7,000	1
10,001 - 13,000	2	7,001 - 11,000	2
13,001 - 16,000	3	11,001 - 14,000	3
16,001 - 20,000	4	14,001 - 17,000	4
20,001 - 23,000	5	17,001 - 23,000	5
23,001 - 26,000	6	23,001 - 30,000	6
26,001 - 29,000	7	30,001 and over	7
29,001 - 35,000	8		
35,001 - 50,000	9		
50,001 and over	10		

Table 2: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from HIGHEST paying job are—	Enter on line 9, above	If wages from HIGHEST paying job are—	Enter on line 9, above
0 - \$30,000	\$300	0 - \$17,000	\$300
30,001 - 47,000	500	17,001 - 28,000	500
47,001 and over	700	28,001 and over	700

Privacy Act and Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We may give the information to the Department of Justice for civil or criminal litigation and to cities, states, and the District of Columbia for use in administering their tax laws. You are required to give this information to your employer.

INITIAL FORM W-4A

1987 Form W-4A

Department of the Treasury
Internal Revenue Service

What is Form W-4A? This form tells your employer how much to withhold from your pay. It is a simpler way to figure your withholding than the 4-page 1987 Form W-4. If you have already given your employer a Form W-4 this year, **do not** file a new Form W-4A unless you wish to change your withholding.

Who Can Use Form W-4A? Everyone can use this form, but it is not as precise as the 4-page form. It only causes more or less tax to be withheld from your wages than you wish. This form adjusts your withholding only for pay you receive after it takes effect. If not enough tax was withheld earlier in the year, you can increase your withholding by reducing the allowances claimed on line 4.

of the form or by requesting that more money be withheld on line 5 of the form.

Caution: If you have income from other sources (such as interest or dividends), you should consider either using the 1987 Form W-4 or making estimated tax payments using Form 1040-ES. Call 1-800-424-3576 (in Hawaii and Alaska, check your local telephone directory) for copies of the 1987 Form W-4 and Publication 919, "Is My Withholding Correct?"

When Should I File? File as soon as possible so that your withholding will more closely match your tax. You must file a 1987 Form W-4 or W-4A before October 1, 1987.

Two-Earner Couples? More Than One Job? To figure the number of allowances you may claim, combine wages from all jobs on one worksheet. File a Form W-4A with each employer, but do not claim the same allowances more than once. Your withholding will usually be more accurate if you claim an allowance on the highest paying job.

Exemption From Withholding—Important Change in Law. If you are a dependent of another person (for example, a student who can still be claimed on your parents' return), you cannot claim exempt status if you have any nonwage income (such as interest on savings) and expect your total income to be more than \$500.

W-4A Worksheet To Figure Your Withholding Allowances

4. Enter "1" for yourself if no one else can claim you as a dependent	A
5. Enter "1" if:	B
1. You are single and have only one job, or	
2. You are married, have only one job, and your spouse does not work, or	
3. Your wages from a second job or your spouse's wages (or the total of both) are \$2,500 or less.	
6. Enter "1" for your spouse if no one else claims your spouse as a dependent	C
7. Enter number of dependents other than your spouse that you will claim on your return	D
8. Enter "1" if you want to increase your withholding because you or your spouse is at least age 65 or blind and you do not plan to itemize deductions	E
9. Enter "1" if you want to reduce your withholding because you have at least \$1,500 of child or dependent care expenses for which you plan to claim a credit	F
10. Add lines A through F and enter total here	G

☐ If you plan to itemize or claim other deductions and wish to reduce your withholding, turn to the Deductions Worksheet on the back.
☐ If you have more than one job or a working spouse AND your combined earnings from all jobs exceed \$20,000, or \$15,000 if you are married filing a joint return, turn to the Two-Earner, Two-Job Worksheet on the back if you want to avoid having too little tax withheld.
☐ If neither of the above situations applies to you, stop here and enter the number from line G on line 4 on Form W-4A below.

W-4A

Employee's Withholding Allowance Certificate

OMB No. 1545-0040

1987

Department of the Treasury
Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see reverse.

1. Type or print your full name

2. Your social security number

Home address (number and street or rural route)

City or town, state, and ZIP code

3. Marital status

☐ Single ☐ Married
☐ Married, but withheld at higher Single rate
Note: If married, but legally separated, or spouse is a dependent, check the Single box.

4. Total number of allowances you are claiming (from line 3 above, or from the Worksheets on back if they apply)

4

5. Additional amount, if any, you want deducted from each pay

\$ \$

6. I claim exemption from withholding because either boxes below apply:

a. ☐ Last year I did not owe any Federal income tax and I had a right to a full refund of ALL income tax withheld. **1987**

b. ☐ This year I do not expect to owe any Federal income tax and expect to have a right to a full refund of ALL income tax withheld. If from a and b apply, enter tax year effective and "EXEMPT" here. **19**

c. Are you a full-time student?

Yes No

Enter number of allowances claimed on line 4 of Form W-4A on back of Form W-4A. If you are a full-time student, enter "1" on line 4 of Form W-4A on back of Form W-4A.

Employee's signature or

date

487

7. Employer's name and address (to employer; complete if not sending to IRS)

31-10-2-1 (insert combination number)

Deductions Worksheet

NOTE: Use this Worksheet only if you plan to itemize or claim other deductions.

1. Enter an estimate of your 1987 itemized deductions. These include: home mortgage interest, 65% of personal interest, charitable contributions, state and local taxes (but not sales taxes), medical expenses in excess of 7.5% of your income, and miscellaneous deductions (most miscellaneous deductions are now deductible only in excess of 2% of your income) 1 \$
2. Enter \$3,760 if married filing jointly or qualifying widow(er)
\$2,540 if single or head of household
\$1,880 if married filing separately 2 \$
3. Subtract line 2 from line 1. Enter the result, but not less than zero. 3 \$
4. Enter an estimate of your 1987 adjustments to income. These include: alimony paid and allowable IRA contributions 4 \$
5. Add lines 3 and 4 and enter the total 5 \$
6. Enter an estimate of your 1987 nonwage income (such as dividends or interest income) 6 \$
7. Subtract line 6 from line 5. Enter the result, but not less than zero 7 \$
8. Divide the amount on line 7 by \$2,000 and enter the result here. Drop any fraction 8
9. Enter the number from Form W-4A Worksheet, line G, on page 1 9
10. Add lines 8 and 9 and enter the total here. If you plan to use the Two-Earner/Two-Job Worksheet, also enter the total on line 1, below. Otherwise stop here and enter this total on Form W-4A, line 4 on page 1 10

Two-Earner/Two-Job Worksheet

NOTE: Use this Worksheet only if the instructions at line G on page 1 direct you here.

1. Enter the number from line G on page 1 (or from line 10 above if you used the Deductions Worksheet) 1
2. Enter "1" if you are married filing a joint return and earnings from the lower paying jobs held by you or your spouse exceed \$3,000. Otherwise enter "0" 2
3. Subtract line 2 from line 1 and enter the result here. If you entered "1" on line 2 and total earnings are less than \$40,000, enter the result on Form W-4A, line 4, page 1, and do not use the rest of this worksheet. Otherwise, continue 3
4. Find the number in Table 1 below that applies to the LOWEST paying job and enter it here 4
5. If line 3 is GREATER THAN OR EQUAL TO line 4, subtract line 4 from line 3. Enter the result here (if zero, enter "0") and on Form W-4A, line 4, page 1. Do not use the rest of this worksheet 5
6. If line 3 is LESS THAN line 4, enter "0" on Form W-4A, line 4, page 1, and enter the number from line 4 of this worksheet 6
7. Enter the number from line 3 of this worksheet 7
8. Subtract line 7 from line 6 8
9. Find the amount in Table 2 below that applies to the HIGHEST paying job and enter it here 9 \$
10. Multiply line 9 by line 8 and enter the result here 10 \$
11. Divide line 10 by the number of pay periods each year. (For example, divide by 26 if you are paid every other week.) Enter the result here and on Form W-4A, line 5, page 1 11 \$

Table 1

Married Filing Jointly		All Others	
If wages from LOWEST paying job are—	Enter on line 4	If wages from LOWEST paying job are—	Enter on line 4
0 \$6,000	0	0 \$4,000	0
6,001 10,000	1	4,001 7,000	1
10,001 13,000	2	7,001 11,000	2
13,001 16,000	3	11,001 14,000	3
16,001 20,000	4	14,001 17,000	4
20,001 23,000	5	17,001 23,000	5
23,001 26,000	6	23,001 30,000	6
26,001 29,000	7	30,001 and over	7
29,001 35,000	8		
35,001 50,000	9		
50,001 and over	10		

Table 2

Married Filing Jointly		All Others	
If wages from HIGHEST paying job are—	Enter on line 9	If wages from HIGHEST paying job are—	Enter on line 9
0 \$30,000	\$300	0 \$17,000	\$300
30,001 47,000	500	17,001 28,000	500
47,001 and over	700	28,001 and over	700

Privacy Act and Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We may give the information to the Department of Justice for civil or criminal litigation and to cities, states, and the District of Columbia for use in administering their tax laws. You are required to give this information to your employer.

REMARKS BY
JAMES I. OWENS
DEPUTY COMMISSIONER OF INTERNAL REVENUE
BEFORE THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON FEDERAL SPENDING
MARCH 6, 1987

I am very pleased to be here today to talk to you about our income tax withholding system and the Paperwork Reduction Act. The Internal Revenue Service is deeply committed to minimizing the paperwork burden of taxpayers. We recognize that taxpayers want simple, easy to understand forms that they can quickly and accurately fill out, and we strive to provide them this.

At the same time, minimizing paperwork is only one of several conflicting objectives that we have. The forms we produce must also be accurate, complete, and timely. In the development of the Form W-4, all of these conflicting objectives were present. We started drafting the long Form W-4 in July of 1986, when we believed that a tax act was likely. We began by attempting to make the form very similar to the 1986 form but soon discovered that that was not possible.

When the Act was signed into law in its final form on

October 22, 1986, we had only a couple of weeks to complete work on the form. Timing was critical because the law required us to issue new tables under which employers calculate the amount of withholding. These tables would go into effect on January 1, 1987, and we had to have a form available prior to that date so that employees could adjust their withholding to get an accurate result if they wished.

The logistics of printing and distributing hundreds of millions of copies of a form were such that we knew that we would be unable to have the form available prior to the first of the year unless we were able to go to print at the end of October. Thus, we had only a very few days after the signing of the Act to finalize the form and get it printed.

We knew that going to a four-page format and adding the increased complexity present on the four-page form would present some taxpayers with difficulty. But Tax Reform Act of 1986 explicitly directed us to design a form--

--"so that withholding from a taxpayer's wages approximates as closely as possible the taxpayer's ultimate tax liability."

The increased complexity of the form was a necessary product of this.

It became clear to us in mid-January that a simplified alternative to the long Form W-4 would be necessary, and we began development of the simplified form in mid-January. As a part of the development of this form, we were able to utilize the consulting firm of Booz-Allen & Hamilton to run a series of focus groups in which the form, as it was developed, was tested by real taxpayers. These focus groups, which involved 23 different groups and over 200 taxpayers, were held at the end of January and during the month of February.

As various versions of the simplified form were found to produce difficulties for some classes of filers, the form was changed to attempt to resolve these difficulties and then tested again. The final Form W-4A, which was announced by the Commissioner on Monday of this week, was the ultimate result of this intensive process.

We are confident that the Form W-4A is an excellent form, based on these tests. There is present today at the hearing Mr. Gregg Wright, who is the consultant with Booz-Allen & Hamilton Inc., who actually ran these focus groups and can describe the methodology and the results of the focus-group testing if you wish.

Mr. Chairman, with your permission I would like to enter

into the record copies of the Booz-Allen & Hamilton report, which summarizes the results of the 23 focus group sessions.

Timing of release of the form is very important. Taxpayers who can't or do not wish to use the long Form W-4 need an alternative. Because of the Congressionally mandated change in the withholding rate tables that employers use, many people are presently being underwithheld pending the filing of a new Form W-4A.

We have had a number of concerns expressed by various members of Congress that the Form W-4A be made available as soon as possible. For example, Congressman Pickle wrote to us on March 3rd as follows:

Each day these people wait increases their risk of underwithholding. At the same time, the only form now available is too complex and confusing for many of them to understand.

Therefore, I am requesting that you take whatever steps are necessary to have the new form Form W-4A made available immediately to the public. Time is of the essence, and taxpayers cannot wait another four to six weeks to receive what they need now.

Thus, our objective is to get a simplified form in

employees hands absolutely as soon as possible. However, we cannot finalize our publishing contract and begin printing and distributing the form until the form is approved by the Office of Information and Regulatory Affairs at the Office of Management and Budget.

Based on our focus group testing, we are confident that the Form W-4A is an excellent form and could be printed in its present form and distributed. OMB has some concerns and changes and we are attempting to resolve these through discussion and negotiation. However, we hope that no one loses sight of the fact that there is a cost to further delays in approval of the form. As long as the simpler alternative is not available to taxpayers, they must continue using the four-page form. Thus, for each day of delay, even if some incremental improvement of the short form was made, the burden on taxpayers who have only the longer form available would continue to be high.

Congress directed us to put out a more accurate form. We did it, and the taxpaying public told us they didn't want it. We went back to the drawing boards and asked taxpayers through focus groups what they wanted. They have told us. Congress is telling us that the American public wants the simplified form now. Mr. Chairman, we think it is time to give the public the form they want. This concludes my comments.

1987 FORM W-4 TESTS

Summary of Results From 23 Focus Group Sessions
Testing Long and Short Form Versions
Between 26 January and 24 February 1987

26 February 1987

Department of the Treasury
Internal Revenue Service

BOOZ-ALLEN & HAMILTON INC.
MANAGEMENT CONSULTANTS

DESCRIPTION OF FOCUS GROUPS

BACKGROUND

- In October 1986, Booz, Allen & Hamilton Inc. began a year-long project to design and test alternative Forms W-4 for the purpose of developing 1988 and later versions of the form
- On 26 January 1987, Booz, Allen began to conduct the first of nine scheduled focus groups to study withholding practices and taxpayer experience with the 1987 Form W-4
- On 3 February, IRS asked Booz, Allen to conduct additional focus groups to test alternative W-4 short forms
- By 24 February, 23 focus groups were conducted testing W-4 alternative designs

W-4 FOCUS GROUP OBJECTIVES

- Gain insight into withholding practices
 - Understanding of withholding system
 - Refund or balance due strategies
 - Use of form worksheets prior to 1987
 - Employer Role
- Identify problems with 1987 W-4 Design
- Conduct formative tests of alternative 1987 W-4A designs
 - Instruction comprehensibility
 - Worksheet entrances and exits
 - Worksheet flow
 - Worksheet/table interfaces
 - Location of certificates and worksheets
 - General format issues

FOCUS GROUP PARTICIPANTS

- Groups of 8-10 wage-earners were organized using commercial market research recruiting techniques
- Participants selected represent a mix of:
 - Return filed: 1040, 1040A, EZ
 - Blue and white collar
 - One and two-earner couples
 - Multiple job holders
 - Filing status
 - Users of tax preparers and self-preparers
 - Workers and students

FOCUS GROUP FORMAT

- Small group discussions led by experienced moderator and withholding/tax specialist
- IRS observation team present at all groups
- Topics covered and approximate time spent

- Introductions	5 min
- Past withholding practices	5-10 min
- 1987 W-4 experiences	10-15 min
- Test form completion*	15-20 min
- Detailed discussion	70-85 min
	120 min
- Test forms collected and analyzed
- Observations reported to form revision team

*Test forms completed based on participants' individual situations

FOCUS GROUPS CONDUCTED 26 JANUARY - 24 FEBRUARY

<u>Focus Groups</u>	<u>Number of Sessions</u>	<u>Number of Participants</u>	<u>1987 W-4 Version Tested</u>
Blue Collar 1040	4	38	Long (1); Short (3)
White Collar 1040	4	34	Long (1); Short (3)
Blue Collar 1040A & EZ	4	34	Short (4)
White Collar 1040A & EZ	2	19	Long (1); Short (1)
White Collar 1040, 1040A & EZ	4	34	Short (4)
Students	2	18	Long (1); Short (1)
Employers	<u>3</u>	<u>25</u>	<u>Long (2); Short (1)</u>
Total	23	202	Long (6); Short (17)

FOCUS GROUP LOCATIONS

<u>Location</u>	<u>Number of Groups</u>
San Francisco, CA	4
Austin, TX	1
College Station, TX	1
Chicago, IL	3
Washington, DC	5
Philadelphia, PA	5
Atlanta, GA	2
Jacksonville, FL	<u>2</u>
Total	23

1987 FORM W-4 VERSIONS TESTED

60

<u>W-4 Version</u>	<u>Test Date</u>	<u>Number of Sessions</u>
1. Long	January 26-29	6
2. Short (A)	February 3	2
3. Short (B)	February 4	1
4. Short (C)	February 4-5	3
5. Short (D)	February 11	2
6. Short (E)	February 12	2
7. Short (F)	February 17	2
8. Short (G)	February 18	1
9. A	February 23-24	<u>4</u>
		23

FINDINGS

NOTABLE WITHHOLDING PRACTICES

- Worksheet not used on pre-1987 W-4 forms; instead, "Nose-counting" and trial and error methods used
- "Allowance" concept not understood; term unfamiliar to most; "Deductions" or "Exemptions" based on household members used instead
- Instructions and general information are ignored by most; instead, they go directly to certificate
- Many, if not most, are disinclined to spend much time or effort on calculating withholding, due to past practices and the perception that it is based only on personal exemptions
- Although most two-earner couples and two-job workers know not to double-count allowances in completing their W-4s, the test groups did not apply this logic to their worksheet calculations, resulting in confusion over allocation of computed allowances between jobs
- Many wage earners consciously adjust their withholding allowances to obtain large refunds

COMMON MISCONCEPTIONS ABOUT W-4 AND WITHHOLDING

- Based only on personal allowances, not on expected tax liability
- W-4 worksheets, consideration of deductions, etc., is new for 1987
- \$500 penalty applicable to good-faith errors and overwithholding
- Students are exempt; they believe that line 6 on certificate indicates this
- Purpose of W-4 worksheets is to reduce flexibility to adjust withholding, especially for overwithholding; IRS attempting to eliminate large refunds as well as underwithholding
- Overclaiming allowances is legitimate as long as any tax owed is paid at year end
- There is no danger in waiting to file 1987 W-4
- The long form has been rescinded; the public should wait until the new form is issued
- Taxpayer perceptions of their ability to complete the W-4 have been affected by negative media coverage

FOCUS GROUP OBSERVATIONS ON W-4 LONG FORM

Form appears intimidating

- Page length
- Text length
- Table size

Instructions difficult to follow

- Tax terminology not understood; overall reading level difficult
- Forward-backward referencing; page turning is confusing
- "Notes", "Changes in the Law", and other items disrupt flow
- Instructions omitted for some lines (e.g., D, L)

Worksheet format confusing

- Exit point for nonitemizers and single earners unclear
- Nonsequential listing for lines Q-T and F-P
- Need to double back at line R for those who do not complete F-P

Miscellaneous criticisms

- October 1 filing requirement and encouragement to file soon seem contradictory
- Use of "Must" and "Should" on worksheet is confusing
- Difficulty of reaching toll-free number is irritating
- Perceived instruction to obtain additional IRS publications seems burdensome
- Exemption conditions confusing for students

W-4A IMPROVEMENTS OVER THE LONG FORM MADE WITH INPUT FROM FOCUS GROUP TESTS

- Appearance is not intimidating; to many, W-4A resembles "easy" W-4s of the past
- Comprehensibility of general information and instructions was increased
- Page-turning (forward-backward) referencing was minimized
- Referencing other publications was minimized
- Entrances and exits to worksheets were more clearly indicated
- Interfaces between line-by-line instructions and tables were made much clearer
- Linearity and progressive flow of worksheet logic was greatly improved
- Numerous wording and format refinements were made
- Language concerning students and exemption from withholding clarified

CONCLUSIONS

- The dual objectives of achieving for the majority of wage earners accuracy and simplicity in W-4 worksheet design are incompatible due to
 - The regulatory requirements to adjust withholding by allowances and to include categories besides personal exemptions, such as itemized deductions and adjustments to income, are not understood by the majority of wage earners
 - The disinclination of the public to spend more than a few minutes completing withholding related forms, based on its non-use of previous worksheets and perception of withholding as based only on personal exemptions
 - The inherent complexity of designing tables in terms of withholding allowance units
- Given these conditions, the W-4A form represents an optimal balance between accuracy and simplicity
- The large majority of participants were unable to correctly complete the long form worksheet because
 - Most of them do not understand tax concepts and terms beyond personal exemptions. These are people who
 - Do not do their own tax returns, and/or
 - Have simple tax situations not involving itemized deductions, etc.

CONCLUSIONS (cont.)

- Many 1040EZ or A filers do not understand that they can exit the main worksheet at line E
- Some were intimidated by the reading level, length, and complexity to the extent they could not determine what to do
- Some used incorrect information on the worksheet in order to ensure a predetermined result, e.g., "0" or "1" allowances when they are actually entitled to more
- The W-4A will be much better received by the public than the long form because it
 - Is shorter and appears less intimidating
 - Those with simple tax situations can more easily exit after the first worksheet
 - The flow and instructions for the "Deductions" and "Two Earner/Two Job" worksheets are simpler and clearer
 - The tables are less complex and the table worksheet interfaces are clearer
 - The overall reading level of the instructions and general information is less difficult

CONCLUSIONS (cont.)

- The W-4A worksheets, although substantially improved over those of the long form, will not be completed accurately by all wage earners, especially those who
 - Do not prepare their own tax returns and do not understand basic tax concepts
 - Do not read at the high school level
 - Do not understand the necessity of allocating allowances among all jobs and earners in the household
 - Are determined to come to a preconceived result
- Incorrect claims of exemption from withholding by students can be expected to decrease
- Any residual public dissatisfaction and confusion over W-4 issues will be substantially mitigated over the next year as the withholding system achieves a new steady state and wage-earners can again make adjustments using trial and error

COMMISSIONER OF INTERNAL REVENUE

Washington, DC 20224

12 MAR 1987

The Honorable Lawton Chiles
Chairman, Subcommittee on
Federal Spending, Budget and
Accounting
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

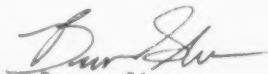
Commissioner Gibbs wanted me to provide you with the enclosed news release and copy of the new Form W-4A, which has now been approved by the Office of Management and Budget. The news release contains useful information on our plans to distribute the form to taxpayers and employers nationwide.

We are confident that this new Form W-4A addresses the problems associated with the Form W-4, and will enable taxpayers to meet the filing requirements of the Tax Reform Act of 1986 with an absolute minimum of difficulty. As the Commissioner stated earlier, IRS will not assess penalties against taxpayers who are underwithheld on their income from wages in 1987, as long as they make a good faith effort to comply with the law and file a new Form W-4 or Form W-4A with their employer by June 1, 1987.

The Legislative Affairs staff will be sending letters on the form to all Members of Congress shortly.

With best wishes, I am

Sincerely,



Bryan Slone
Assistant to the Commissioner
(Legislative Liaison)

News Release

Department of the Treasury Internal Revenue Service

Public Affairs Division
Washington, DC 20224

For Release: 3/12/87

Media Contact Tel (202) 566-4024
Copies Tel (202) 566-4054

IR-87-25

Washington -- The Internal Revenue Service today announced that an alternative withholding certificate, new Form W-4A, has been approved by the Office of Management and Budget and is now being printed.

In mid-April the IRS will begin to mail employers a W-4A forms package containing seven copies of the form, instructions and an order blank for more copies. The form will be available at local IRS offices and many banks, post offices and libraries at that time. It can also be ordered through IRS centralized distribution sites by mail or by calling 1-800-424-FORM (3676). (In Alaska and Hawaii call the IRS "Forms Only" number in the local phone book.)

The Form W-4A announced today reflects changes made by OMB to the form the IRS announced at a March 2 press conference. The OMB changes generally highlight several points in the worksheets where certain taxpayers may stop in calculations if they do not apply to their situation. The instructions have also been changed to point out that employees who are exempt from withholding need not use the worksheets at all.

Employees who have already filed a 1987 Form W-4 with employers need not file again unless they need to change their withholding because of a change in their tax situation. The IRS reiterated the announcement made at the press conference that taxpayers will not be penalized if they are underwithheld on

MORE

their income from wages for 1987 as long as they make a good faith effort to comply with the law and file a new Form W-4A or W-4 with their employers by June 1, 1987.

The new Form W-4A was developed as an alternative withholding certificate for taxpayers who prefer a simpler way to figure withholding than the Form W-4 introduced earlier. The IRS pointed out that all taxpayers may use either form but that those with complex tax situations may prefer to use Form W-4, which generally is more accurate in matching withholding and tax liability.

Because many taxpayers will not have changed their withholding until a part of 1987 has passed, the IRS continued to urge them to monitor their withholding carefully to avoid underwithholding or unwanted overwithholding, using IRS Publication 919, "Is My Withholding Correct?" A worksheet in that publication takes into account tax that has been withheld in 1987 and projects revised withholding for the remainder of the year. Publication 919 also is available through local IRS offices and centralized forms distribution sites.

X X X

Suite 700
600 Maryland Ave. S.W.
Washington, DC 20024

(202) 544-9800

National Federation of
Independent Business

NFIB



March 5, 1987

Honorable Lawton Chiles
United States Senate
250 Russell SOB
Washington, D.C. 20510

Dear Senator Chiles:

On March 5, NFIB attended a meeting at the Office of Information and Regulatory Affairs, at which the topic of discussion was the recently released IRS W-4A wage withholding form. The purpose of the meeting was to solicit comments from representatives of the business community for suggestions for improving the W-4A form as a part of OMB's review mandated under the Paperwork Reduction Act.

NFIB appreciated the opportunity to participate in such a forum, and we agree with the recommendations of the group for improvements in the W-4A. The recommendations of the group include changes in how the form is organized as well as suggestions for improved highlighting of specific points. The group determined that it was critical to an individual's proper use of the form to highlight the instructions provided to determine which worksheets apply to an individual's circumstances as a taxpayer.

The group also will strongly recommend that the new W-4A replace the W-4 issued last year and that the old W-4 be rescinded to prevent confusion between employees and employers in deciding which form to use. The IRS is also strongly encouraged to prepare at its earliest convenience a new W-4 for 1988 that reflects the tax law changes for 1988, and that it be introduced with sufficient lead time to allow for a proper comment period.

We must, however, state that this meeting accomplishes too little too late. This entire episode clearly illustrates that the Internal Revenue Service and the Office of Management and Budget, in their hasty approval

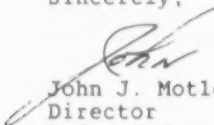
or the first W-4 last October, jointly bear responsibility for disregarding the mandated clearance procedures delineated in the Paperwork Reduction Act. The reaction by the public to this form was very predictable. Anyone who took the time to analyze the content of the W-4 would soon realize that it carried with it an expectation of understanding of our new tax law far beyond the capability of most individual taxpayers, who are not tax practitioners.

We are encouraged that the Office of Management and Budget determined that it would be proper for the business community to have an opportunity to comment on the W-4A, but we must wonder why no similar opportunity was afforded last October when the original W-4 was issued. Opportunity for public comment was severely limited, and OMB is accountable for not ensuring adequate review by affected parties. Nor, frankly, are the interests of the public protected adequately in private meetings between a small group of people.

We also continue to be concerned that the Internal Revenue Service consistently blames the need to work within the parameters of the Paperwork Reduction Act for delays in distributing new tax forms to the public. For an agency which insists on taxpayer compliance with the law in all cases, the IRS is setting a poor example to the taxpaying public.

The membership of NFIB supports your efforts to ensure that the agencies act responsibly in implementing the Paperwork Reduction Act with respect to the tax laws. This year a number of new requirements will be imposed on the public. The W-4 controversy is just the beginning. Tax paperwork, immigration paperwork, etc. will, if not properly devised and reviewed, impose enormous burdens. Small business is all too aware of the needless costs of complex tax forms and regulations, and we look forward to working with you in ensuring that the goals of the Paperwork Reduction Act are realized.

Sincerely,


John J. Motley III
Director
Federal Governmental Relations

cc: James B. McRae, Jr.
Dep. Admin.--OIRA

Mark Richardson
BCFR

4184D

NATIONAL SECURITY TEAM/ADMINISTRATION AGENDA

(Radio Address to the Nation, March 14, 1987)

My fellow Americans: This afternoon I thought I'd brief you on important changes that have taken place recently in our administration and on our agenda for the months to come.

Permit me now to turn to two other matters of great importance. First, last year's tax reform meant that early this year millions of Americans found themselves filling out W-4 forms that were downright confusing. I know; I had to fill one out myself. Well, we heard your complaints and worked with the IRS to come up with a new, much simpler W-4 form that will be available in about a month. So, the American people took on the tax man and won.

